WORLD POLITICS

A Quarterly Journal of International Relations

Volume XLII, Number 2 January 1990

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Individuals: $20 per year; $33 for two years; $48 for three years.
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WORLD POLITICS (ISSN 0043-8871). Published quarterly by Princeton University Press, Vol. XLII, No. 2, January 1990. Second class postage paid at Baltimore, MD and additional mailing offices. POSTMASTER: Send address changes to WORLD POLITICS, The Johns Hopkins University Press, Journals Publishing Division, 701 W. 40th Street, Suite 275, Baltimore, MD 21211-2190. Printed in the United States of America by Princeton University Press.

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Vol. XLII • January 1990 • No. 2

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ABSTRACTS

Poverty, the Coup Trap, and the Seizure of Executive Power

By JOHN B. LONDREGAN and KEITH T. POOLE

The transfer of power through the use of military force is a commonplace event in world affairs. Although no two coups d'état are alike, they all have a common denominator: poverty. We analyze political and economic data from 121 countries during the period 1950-1982 and find that the probability of a government's being overthrown by a coup is significantly influenced by the level of economic well-being. Thus, even authoritarian governments have powerful incentives to promote economic growth, not out of concern for the welfare of their citizens, but because poor economic performance may lead to their removal by force. When the simultaneity of low income and coups is accounted for, we find that the aftereffects of a coup include a heritage of political instability in the form of an increased likelihood of further coups. Although the effect of income on coups is pronounced, we find little evidence of feedback from coups to income growth.

Japan and the Theory of International Leadership

By RICHARD ROSECRANCE and JENNIFER TAW

This essay makes four points: (1) despite the assertions of some of their proponents, static game-theoretic and optimal-tariff arguments suggest that states should not undertake hegemonic responsibilities to maintain an open trading system; (2) hegemonic states have, in fact, cooperated with others, despite risks to themselves; (3) Japan, the hegemonic successor or condominial associate of the United States in the years to come, is also likely to cooperate to prevent the collapse of the international trading system. This means (4) that hegemonic or near-hegemonic powers have either acted irrationally or that their calculations have rested upon a different and more dynamic rational foundation. Specifically, systemic as well as domestic considerations have influenced their thinking and determined their policies. A major creditor power like Japan must find means of allowing others to earn surpluses in its own market or of providing assistance on concessional terms.

Institutions and Economic Policy: Theory and a Korean Case Study

By STEPHAN HAGGARD and CHUNG-IN MOON

Recent writing on the rapid growth of the East Asian newly industrializing countries—Korea, Taiwan, Hong Kong, and Singapore—has been dominated by an institutionalist perspective that focuses on the "strength" of the state vis-à-vis societal actors. A study of Korea's stabilization efforts in the 1980s underlines the importance of organizational factors in explaining policy outcomes, but also suggests important limits on institutionalist arguments. These include the absence of unique institutional solutions for political problems and the indeterminacy of institutional configuration with respect to the economic efficiency of policy. A focus on characteristics of the state alone can overlook the organizational resources of societal actors and the interest of politicians in building bases of support even in "strong" states.

Rationality and Deterrence

By FRANK C. ZAGARE

This essay explores the relationship between deterrence theory and two distinct notions of rationality associated with it. The author argues that the concept of procedural irrationality, which is the basis of many critiques of contemporary deterrence theory, is not necessarily inconsistent with the instrumental definition of rationality implicit in many models of deterrence. He also argues that some recent rational choice models of deterrence are, nonetheless, deficient in their application of the rationality postulate. Finally, he provides an outline of a possible resolution of the paradox of deterrence.

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Theories of Peasant Revolution:
A critique and contribution from the Philippines
By GARY HAWES

This article examines three models—moral economy, rational choice, and class structure—that have been applied to rebellions and revolutionary movements in Southeast Asia. All three are found lacking in various ways and unable to provide convincing explanations for the growth and continuing strength of the contemporary revolutionary movement in the Philippines. The Aquino government is challenged by a movement that has a mass base of roughly ten million and fields a fighting force of twenty thousand to twenty-five thousand men and women. It is active in virtually every province and city of the nation. Based on the present case study, suggestions are made both for ways in which the insights of extant theories can be synthesized and ways in which these theories must be revised if they are to be made more generally applicable to today's revolutions.

Political Movements and State Authority in Liberal Democracies
By THOMAS R. ROCHON

Political movements are an increasingly common form of mass political mobilization, and the legitimacy and authority of democratic states depends to a growing extent on the relationship between movements and states. Existing case studies of political movements neglect that relationship in favor of issues of mobilization, organization, and societal impact. These studies can nonetheless be used to show that political movements employ a mixture of confrontation and collaboration in their relationship to the state. More centralized states, which offer fewer institutional channels for movement influence, face more confrontational movements. However, political movements in all democratic settings use confrontation primarily as a strategic device to enhance their leverage in negotiations with state authorities. Movements are not a challenge to state authority so much as they are a force for change within democratic society.

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POVERTY, THE COUP TRAP, AND THE SEIZURE OF EXECUTIVE POWER

By JOHN B. LONDREGAN and KEITH T. POOLE*

I. Introduction

THE transfer of executive power through the use or threat of force, the coup d'état, has become commonplace. As is the case with snowflakes and sunsets, no two such transfers are exactly alike. Various studies have described the nuances and idiosyncrasies of particular coups in great detail.[1] Underlying the interesting particulars of colonels overthrowing generals and of upwardly mobile drill sergeants taking up residence in presidential palaces, however, there is a common denominator among coups: poverty.

We agree with Luttwak and with Finer that economic backwardness is close to being a necessary condition for coups.[2] Coups are almost nonexistent in developed countries. To assess the interrelationship between economic privation (as measured by per capita income) and the incidence of coups d'état, we have analyzed political and economic data from 121 countries between 1950 and 1982. We find a pronounced inverse relationship between coups and income: coups are 21 times more likely to occur among the poorest countries in our sample than among the wealthiest.

To carry out our study, we constructed a model that enables us to assess the separate influences of income growth, the level of income, and a country's past history of coups, as well as the interdependence of coups and income growth. Because the data are organized by country over time, we are able to employ time-series analysis to discriminate between

* The helpful comments of Alberto Alesina, Jim Alt, Howard Rosenthal, and participants in seminars at Carnegie Mellon University, the University of Western Ontario, and the National Bureau of Economic Research are gratefully acknowledged. We also gratefully acknowledge the financial support of John Londregan's work by BP America.

[1] See, for example, Henry Bienen, ed., *The Military Intervenes: Case Studies in Political Development* (New York: Russell Sage Foundation, 1968); and Samuel Decalo, *Coups and Army Rule in Africa* (New Haven: Yale University Press, 1976).

[2] Edward Luttwak, *Coup d' Etat: A Practical Handbook* (New York: Knopf, 1969); Samuel E. Finer, *The Man on Horseback* (London: Pall Mall, 1962).

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the long- and short-term effects of coups d'état. Zuk and Thompson exploited a similar data structure to analyze postcoup military spending over time.[3] By contrast, most previous work is cross-sectional in nature.[4]

Huntington argued that "modernity breeds stability, but modernization breeds instability,"[5] while Olson contended more narrowly that economic growth is destabilizing.[6] Needler asserts, however, that "a successful coup or revolt is less likely when economic conditions are improving."[7] Our model enables us to simultaneously assess the impact of the rate of economic growth and the level of per capita income on one form of political instability: the coup d'état. We find that a high level of income dramatically inhibits coups; so does a high rate of economic growth, to the extent that it exerts an influence independent of the level of income. According to Huntington, "The more man wages war against 'his ancient enemies: poverty, disease, ignorance' the more he wages war against himself."[8] If that is true, the coup d'état is not man's weapon of choice.

Our model also indicates that the political aftereffects of a successful coup are substantial. A successful coup continues to elevate the propensity for yet another coup for up to six years. This finding comports with Finer's assertion that the "political culture" of a country suffers serious erosion in the wake of a coup.[9] Once the ice is broken, more coups follow.[10] And once the structures of civilian authority and constitutional procedures are torn down, many years are required to rebuild them. This elevated coup propensity is consistent with the recent finding by Bienen and Van De Walle that African leaders who acquire power by extralegal

[3] Gary Zuk and William R. Thompson, "The Post-coup Military Spending Question: A Pooled Cross-Sectional Time Series Analysis," *American Political Science Review* 76 (March 1982), 60-74.

[4] Robert W. Jackman, "Politicians in Uniform: Military Governments and Social Change in the Third World," *American Political Science Review* 70 (December 1976), 1078-97; Rosemary O'Kane, "A Probabilistic Approach to the Causes of Coups d'Etat," *British Journal of Political Science* 11 (July 1981), 287-308; Rosemary O'Kane, "Towards an Examination of the General Causes of Coups d'Etat," *European Journal of Political Research* 11 (March 1983), 27-44; Pat McGowan and Thomas H. Johnson, "African Military Coups d'Etat and Underdevelopment: A Quantitative Historical Analysis," *Journal of Modern African Studies* 22 (December 1984), 633-66; Thomas H. Johnson, Robert O. Slater, and Pat McGowan, "Explaining African Military Coups d'Etat, 1960-1982," *American Political Science Review* 78 (September 1984), 622-40.

[5] Samuel P. Huntington, *Political Order in Changing Societies* (New Haven: Yale University Press, 1968), 41.

[6] Mancur Olson, "Rapid Growth as a Destabilizing Force," *Journal of Economic History* 23 (December 1963), 529-52.

[7] Martin C. Needler, "Political Development and Military Intervention in Latin America," *American Political Science Review* 60 (September 1966), 616-26, at 617.

[8] Huntington (fn. 5), 41.

[9] Finer (fn. 2).

[10] McGowan and Johnson (fn. 4), 639; O'Kane (fn. 4, 1983), 34.

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means are more likely to be ousted than their legally appointed counterparts, at least during the first years of their rule.[11]

Despite the dramatic effect of economic performance on the probability of coups, the reverse is not true: a country's past coup history has little discernible effect on its economy. We find no evidence that either the recent history of coups or the current propensity for a coup d'état significantly affect the growth rate.

In section II, we describe the data used in this analysis. Section III provides a preliminary analysis of the interrelationships among coups, per capita income, and political instability. In section IV we subject the data to a parametric analysis that accounts for the joint endogeneity of coups and economic growth. Concluding remarks appear in section V.

II. The Data

Our political data are provided by *The World Handbook of Political and Social Indicators*;[12] the economic data were compiled by Summers and Heston.[13] The *World Handbook* provides annual political data for 148 countries during the period 1948-1982; Summers and Heston provide annual economic data for 130 countries between 1950 and 1985. After matching the two data sets, we are left with annual observations for 121 countries from 1950 to 1982. We do not include years prior to a country's independence; therefore our data for some countries begin after 1950. (For example, our first observation for Algeria is dated 1962.) The matched data set includes 3,036 observations; each consists of political and economic information for a given country during a particular year.

The political data include riots, elections, political executions, deaths from domestic political violence, successful irregular transfers of executive power (that is, successful coups), and unsuccessful attempts at irregular transfers of executive power (failed coups). The political variables were compiled for the *World Handbook* from published sources such as the *New York Times Index* and *Keesing's Contemporary Archives*. Some of

[11] Henry Bienen and Nicolas Van De Walle, "Time and Power in Africa," *American Political Science Review* 83 (March 1989), 19-34, at 26, 30.

[12] This information was made available by the Inter-University Consortium for Political and Social Research, Ann Arbor, MI. The data for the *World Handbook of Political and Social Indicators III, 1948-1982* (New Haven: Yale University Press, 1983), were originally collected by Charles Lewis Taylor. Neither the collector of the original data nor the Consortium bear any responsibility for the analyses or interpretations presented here.

[13] Robert Summers and Alan Heston, "A New Set of International Comparisons of Real Product and Prices: Estimates for 130 Countries, 1950-1985" *The Review of Income and Wealth* 34 (April 1988), 1-25.

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these measures of political unrest undoubtedly suffer from serious underreporting: the South African government does not invite the press to hangings of political prisoners. The data on irregular transfers (coups) are quite reliable, however, as even critics of the use of the elite press as a source of political events data acknowledge.[14]

To measure income, we use real gross domestic product (GDP) per capita. Summers and Heston provide two measures of real income, one using "chain prices," the other reporting incomes in constant 1980 prices. Comparisons of real income across time and between developed and developing countries are hampered by differences in culture and technology.[15] Real GDP as measured in 1980 U.S. dollars has the advantage of expressing all values of real income in terms of a common base year: it is therefore the measure we have adopted. The 1980 measure of real GDP makes the inter-country, inter-year comparisons of real income easier to interpret; using the "chain price" as a measure yields essentially similar results.

For both measures of real income, Summers and Heston compute separate price deflators for consumption, investment, and government spending. To calculate real income per capita, they divide nominal GDP in each sector by the sector-specific price index and combine the resulting constant dollar values. They assert that this approach provides a more reliable indicator of real income then could be obtained by using a single price deflator.

III. Preliminary Data Analysis

Table 1 reports the means and standard deviations of the political and economic variables that form the basis of our analysis. This table indicates that riots, elections, and deaths from domestic political violence are common events; each occurs in about one-third of all country/years. Coups (whether successful or not) and political executions are less common; they occur in fewer than one-tenth of the country/years in our sample. The mean of real gross domestic product per capita is just under $3,000 measured in 1980 U.S. dollars, or about 27 percent of U.S. per capita GDP for 1980.

Table 2 reports the Pearson correlation coefficients between population, income, and six political variables: riots, unsuccessful coup at-

[14] Mort Rosenbloom, *Coups and Earthquakes: Reporting the World for America* (New York: Harper & Row, 1979).

[15] A cogent discussion of these issues in relation to the Summers and Heston data is contained in Robert E. Lucas, "On the Mechanics of Economic Development," *Journal of Monetary Economics* 22 (July 1988), 3-42, at 3-4.

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TABLE 1
DESCRIPTION OF VARIABLES USED IN THE ANALYSIS

	Mean	*Standard Deviation*	*Non-zero Observation as a Fraction of Total Observations*
Population[a]	22.335	60.081	100.0%
Per capita income[b]	2,939.000	3,877.000	100.0%
Riots	2.705	8.861	34.6%
Failed coups	0.084	0.368	6.4%
Successful coups	0.060	0.282	5.1%
Elections	0.342	0.623	28.6%
Political executions	4.011	70.751	7.8%
Deaths from domestic political violence	1,046.681	27,250.329	33.2%

[a] In millions
[b] In 1980 US dollars

tempts, successful coups, elections, political executions, and deaths from domestic political violence. The entries above the diagonal are the zero-order Pearson correlation coefficients; second-order correlation coefficients among the political variables (controlling for per capita income and population) appear below the diagonal. Standard errors appear in parentheses; they were calculated using Efron's bootstrap technique,[16] with 1,024 replications. This procedure allows us to estimate the probability distribution of the correlation coefficients; it does not impose an a priori distribution.

Per capita income exhibits a negative correlation with coup attempts (successful or otherwise) and with two of our other measures of political instability: political executions and deaths from domestic political violence. It is positively correlated with elections and, to a statistically insignificant extent, with riots.

Because coups, deaths from domestic political violence, and political executions are all negatively correlated with income, there is a danger that the positive correlations among these variables may be spurious. To avoid such an error, we examine the partial correlations among these variables, controlling for population and income (entries below the diagonal in Table 2).

The correlation of coups with riots and political executions remains positive even after correcting for the common influences of income and

[16] Bradley Efron, "Bootstrap Methods: Another Look at the Jack-Knife," *Annals of Statistics* 7 (January 1979), 1-26.

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TABLE 2
CORRELATION COEFFICIENTS BETWEEN POPULATION, INCOME, AND POLITICAL VARIABLES[a]

	Population	*Per Capita Income*[a]	*Riots*	*Failed Coups*	*Successful Coups*	*Elections*	*Political Executions*	*Deaths from Domestic Political Violence*
Population	1.000	−0.008 (0.015)[b]	0.348 (0.037)	−0.042 (0.005)	−0.029 (0.006)	0.083 (0.024)	0.000 (0.004)	0.029 (0.008)
Per capita income	·	1.000	0.029 (0.018)	−0.068 (0.011)	−0.090 (0.007)	0.107 (0.019)	−0.021 (0.007)	−0.024 (0.005)
Riots	·	·	1.000	0.103 (0.041)	0.066 (0.020)	0.094 (0.024)	0.018 (0.017)	0.016 (0.020)
Failed coups	·	·	0.138[c] (0.040)	1.000	0.183 (0.038)	0.004 (0.016)	0.070 (0.031)	0.023 (0.036)
Successful coups	·	·	0.094 (0.020)	0.194 (0.038)	1.000	0.001 (0.016)	0.075 (0.033)	0.016 (0.026)
Elections	·	·	0.081 (0.025)	0.045 (0.016)	0.043 (0.016)	1.000	0.028 (0.029)	−0.020 (0.004)
Political executions	·	·	0.022 (0.017)	0.074 (0.031)	0.078 (0.033)	0.038 (0.029)	1.000	0.004 (0.014)
Deaths from domestic political violence	·	·	0.008 (0.020)	0.026 (0.035)	0.018 (0.026)	−0.015 (0.003)	0.004 (0.014)	1.000

[a] Standard errors are shown in parentheses.
[b] The entries above the diagonal are zero-order Pearson correlation coefficients.
[c] The entries below the diagonal are second-order Pearson correlations controlling for per capita income and population.

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population. The correlation between successful coups and deaths from domestic political violence remains insignificant, and the correlation between coups and elections becomes significantly positive (although small) once the effects of population and income are controlled for.

The pattern of partial correlations between successful coups and the other political variables is almost identical to the corresponding pattern for failed coups. This is not surprising; in view of the penalties for failure, we may expect that coup participants will set their plans in motion only when they expect to succeed.

Table 3 shows that the relationship between successful coups and per capita income is nonlinear. The incidence of coups is approximately constant among countries in the three lowest quintiles of income for our sample (up to per capita income of about $2,300 measured in 1980 U.S. dollars). At income levels above $2,300, the incidence of coups drops off dramatically. The coup rate for countries in the highest income quintile (above $4,800) is only about 0.3 percent per year, or twenty-one times lower than the average for the three lowest quintiles.

A notable feature of Table 3 is that high income seems to inhibit successful coups more effectively than it does failed coups. This may be the result of reporting bias: in poor countries, some failed coup attempts may not be reported. Although we are confident that few successful coups go unreported, we are less sure of the data on coup *attempts.* Reporting bias

TABLE 3
INCIDENCE OF POLITICAL EVENTS BY INCOME QUINTILE

	Percentage of Observations with at Least One Occurrence of					
Quintile of per Capita Income	*Successful Coup*	*Failed Coup*	*Riot*	*Death from Domestic Political Violence*	*Election*	*Political Execution*
1. Less than $575	7.4	6.3	26.9	35.0	16.9	12.9
2. Between $575 and $1,079	7.3	10.2	30.4	34.3	24.8	8.3
3. Between $1,079 and $2,294	7.3	8.8	41.2	42.2	29.5	7.5
4. Between $2,294 and $4,804	3.1	5.4	41.4	32.7	32.7	8.3
5. At least $4,805	0.3	1.5	33.3	22.2	38.9	2.3
Overall	5.1	6.4	34.6	33.2	28.6	7.8

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is not the only problem; another one is the very definition of the term "failed coup attempt." As Needler put it, "The categories of coups that were aborted, suppressed, or abandoned melt into each other and into a host of other non-coup phenomena so as to defy accounting."[17]

The economic variables have a much stronger effect than the political variables. For example, among the political variables, unsuccessful coups have the strongest association with successful coups: the probability of a successful coup, conditional on a failed coup occurring in the same year, is four times the unconditional mean probability. The influence of income on the probability of a coup is much more dramatic: the conditional probability of a coup where per capita GDP is in the highest quintile of the sample (i.e., in excess of $4,805) is only one-fifteenth of the unconditional probability.

The inverse relationship between income and the coup propensity in Table 3 is a mirror image of the positive correlation described by Lipset between income and democratic stability. Lipset relied upon GNP per capita in 1949, as calculated by the UN statistical office. We reconstruct his analysis using Summers and Heston's real GDP measures for 1950, the earliest year for which they are available. Lipset calculated mean incomes for four groups of countries, classified by the degree to which they enjoyed a democratic political culture.[18]

Using the countries within Lipset's classes for which Summers and Heston's data are available, we find that the average incomes during 1950, as measured in constant 1980 U.S. dollars, were: $4,284 for "European and English-Speaking Stable Democracies"; $2,210 for "European and English-Speaking Unstable Democracies and Dictatorships"; $1,719 for "Latin American Unstable Democracies and Dictatorships"; and $1,249 for "Latin American Stable Dictatorships." The means of all categories except European and English-Speaking Stable Democracies (which is near the top of the fourth quintile) fall into the middle quintile of per capita income for our sample. This suggests that the level of income at which the incidence of coups begins to decline is about the same as that identified by Lipset as the level at which "stable democracy" emerges.

The two variables that are central to the remainder of our analysis, coups and per capita incomes, exhibit considerable interregional heterogeneity. Region-specific means for the annual coup probability, the an-

[17] Needler (fn. 7), 617.

[18] Seymour Martin Lipset, "Some Social Requisites of Democracy: Economic Development and Political Legitimacy," *American Political Science Review* 53 (March 1959), 69-105, at 75-77.

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nual growth rate of per capita income, and the level of per capita income are shown in Table 4. South America has the highest rate of coups, followed by Africa (the poorest and slowest-growing region). Europe/North America (the richest region), and Oceania have the lowest coup rates. These interregional comparisons are broadly consistent with the negative association between income and coups indicated in Table 3. However, the high rate of coups in South America does not seem entirely attributable to low income or slow growth: the countries of Africa are poorer and have slower rates of growth, but experience a lower rate of coups.

TABLE 4
SELECTED STATISTICS BY REGION, 1950

	Fraction of Observations with at least one Coup d'Etat	*Annual Per Capita Income Growth Rate*	*Per Capita Income (1980 U.S.$)*
South America	12.7%	1.8%	2,157
Africa	7.8%	1.3%	612
Central America and the Caribbean	6.6%	1.8%	1,678
Asia	5.9%	2.9%	1,702
Europe and North America	1.4%	3.3%	4,826
Oceania	1.0%	2.2%	3,311

The pronounced negative association between coups and high income is consistent with the findings of some authors that—controlling for various political variables—a weak economy makes coups more likely.[19] This leaves several questions unanswered: Do coups cause poor economic performance, or does poor economic performance cause coups? What is the effect of political instability, in the form of coups d'état, on the *rate* of economic growth, controlling for the *level* of economic attainment? What explains the high rate of coups in South America despite that region's relatively advanced economic development? In section IV, we construct a parametric framework in which we assess the nature and degree of feedback between coups and economic performance. The parametric approach also enables us to distinguish between the effects of the level of income and the rate of income growth, and to incorporate the aftereffects of past coups into our analysis.

[19] Jackman (fn. 4), 1084; O'Kane (fn. 4, 1983), 34; Johnson, Slater, and McGowan (fn. 4), 635; McGowan and Johnson (fn. 4), 658.

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IV. Parametric Analysis

We begin our analysis by constructing a probit model of coups. This model reveals that poverty and a past history of coups significantly increase the risk that a coup will occur. Rapid growth does not emerge as a source of coups: to the extent that it matters independently of the *level* of income, the *rate* of income growth is coup-*inhibiting*.

The relationship between coups and income raises the question: Does low income cause coups, or is it the other way around? To find the answer, we employ a simultaneous equations framework that allows for the joint endogeneity of coups and income. The model we have constructed indicates that disturbances to the GDP growth equation are correlated with shocks to the coup equation. Unanticipated low growth is associated with an elevated coup probability. It appears to be easier for the military to seize power when the current government is doing badly than when it is doing well. The aftereffects of a successful coup, however, are felt for many years in the form of a heightened risk of yet further coups.

A. A Model of Coups

From a data-analytic point of view, coups are a discrete phenomenon; there is no such thing as a "half a coup." To account for the all-or-nothing nature of coups, we use a probit model to analyze their occurrence. In this model, there is an underlying propensity to have a coup during year t in country i. We denote this propensity as z_{it}^*. When z_{it}^* is positive, at least one successful coup occurs; when it is negative or zero, there is no successful coup. We let δ_{it} denote the indicator variable for a successful coup. If at least one successful coup occurs during year t in country i, $\delta_{it} = 1$; otherwise $\delta_{it} = 0$.

The model is completed by specifying the process that generates z_{it}^*. Here we assume that it is of the form:

$$z_{it}^* = \mathbf{x}_{it}'\boldsymbol{\theta} - \eta_{it} \qquad (1)$$

where the disturbance term is normally distributed with zero mean and variance σ_η^2. In latent variable models of this type, one can identify the $\boldsymbol{\theta}$ parameter only up to a factor of proportionality, namely $1/\sigma_\eta$. We follow the usual custom by imposing the convenient but arbitrary normalization $\sigma_\eta = 1$. The vector $\mathbf{x}_{it}$ consists of variables that are predetermined with respect to z_{it}^* during year t in country i.[20] These variables may include

[20] Robert F. Engle, David F. Hendry, and Jean-François Richard, "Exogeneity," *Econometrica* 51 (March 1983), 277-304, at 280.

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time-varying regressors, such as past values of per capita GDP, as well as fixed regressors, such as variables that indicate geographic region.

We begin with a distributed lag model in which the latent coup propensity depends solely upon the occurrence of previous coups:

$$z_{it}^{*} = \theta_0 + \sum_{s=1}^{T} \theta_s c_{it-s} - \eta_{it} \tag{2}$$

where c_{it} denotes the number of coups that actually occurred in country i during year t. Equation (2) specifies that the propensity for a coup to occur during the current year depends upon the number of coups in each of the preceding T years. In this model, the effects of a past coup depend on the time that has elapsed since its occurrence. The parameter θ_s represents the impact of a coup that occurred s years ago on the current propensity for a coup. The error term in equation (2) is serially uncorrelated and homoscedastic.

In principle, we would like to make T as large as possible and place no additional restrictions on the θ_s terms. As a practical matter, we have only 3,036 observations, with no more than 33 consecutive annual observations for any given country. It is therefore impossible for us to estimate the impact of coups that lie more than thirty-two years in the past. Moreover, we observe complete thirty-three-year histories for only 48 of the 119 countries in our data set. The median country contributes 24 observations. Thus, if we required complete T-year histories to estimate equation (2), we would have to discard most of our data if T were large. For instance, only 414 of our 3,036 observations include complete twenty-four-year coup histories; so, for $T = 24$, we could use only 14 percent of our data. An alternative to this approach would be to impose hypothesized values for the pre-sample coup histories. We could set $c_{it} = 0$ for all pre-sample values of t. Although this approach seems sensible for newly independent countries, it is less appealing for countries that were independent for a long time prior to 1948, such as Argentina, which gained independence in 1816, or Bolivia, which has been independent since 1825.

To operationalize the model, we set $T = 13$. Half of our observations (1,524 data points) contain complete thirteen-year histories. Our choice of T enables us to examine possible time dependence in the coup process over more than a decade while still leaving us with a relatively large number of observations. Column one of Table 5 reports the parameter estimates for equation (2). We see that the estimated impact coefficients are, with one exception (the fourth lag), positive and significant up to six years into the past; moreover, with one exception (the ninth lag), they are individually insignificant beyond six years.

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TABLE 5
THE EFFECT OF PAST COUPS AND RECENT INDEPENDENCE ON THE LIKELIHOOD OF A CURRENT COUP[a]

	Equation (2)	*Equation (3)*	*Equation (4)*	*Equation (4) (revised)*
Intercept	−1.926	−1.909	0.825	−1.926
	(0.086)	(0.084)	(4.033)	(0.100)
Coup History				
Recent coups		0.261	0.263	0.262
Most recent 6 years		(0.058)	(0.059)	(0.059)
Distant coups		0.128	0.132	0.125
More than 6 years past		(0.055)	(0.055)	(0.055)
Coups lagged 1 year	0.406			
	(0.145)			
Coups lagged 2 years	0.365			
	(0.160)			
Coups lagged 3 years	0.375			
	(0.138)			
Coups lagged 4 years	−0.351			
	(0.302)			
Coups lagged 5 years	0.316			
	(0.137)			
Coups lagged 6 years	0.289			
	(0.154)			
Coups lagged 7 years	0.179			
	(0.181)			
Coups lagged 8 years	0.043			
	(0.129)			
Coups lagged 9 years	0.458			
	(0.136)			
Coups lagged 10 years	0.141			
	(0.159)			
Coups lagged 11 years	−0.060			
	(0.201)			
Coups lagged 12 years	−0.277			
	(0.276)			
Coups lagged 13 years	0.274			
	(0.201)			
Recent Independence				
Age (since independence)			−0.016	
			(0.138)	
Age^2			−0.404	
			(0.598)	
Age^3			0.020	
			(0.028)	
Post-1950 independence			−0.0003	0.050
			(0.0004)	(0.117)
Log of the likelihood function	−259.007	−268.332	−267.008	−268.245

[a] Standard errors are shown in parentheses.

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A more parsimonious representation of the coup data is provided by model (3), in which the error term is serially uncorrelated and homoscedastic:

$$z_{it}^{*} = \gamma_0 + \gamma_1 \sum_{s=1}^{L} c_{it-s} + \gamma_2 \sum_{s=L+1}^{T} c_{it-s} - \eta_{it} \qquad (3)$$

In this model, all recent coups (those that occurred within the past L years) have a common effect, measured by γ_1 on the coup propensity; γ_2 measures the common effect of coups in the more distant past (those that occurred between $L+1$ and T years ago). Because the estimated individual impact coefficients become individually insignificant after six lags, we set $L = 6$, and estimate model (3). The resulting parameter estimates are reported in column two of Table 5.

A model in which the aftereffects of a coup decay geometrically is also estimated:

$$z_{it}^{*} = \theta_0 + \theta_1 \sum_{s=1}^{T} \beta^s c_{it-s} + \eta_{it}$$

According to this model, a coup occurring $s+1$ years in the past has β^s times the impact of a coup occurring last year. The estimated β is 0.89, indicating that the aftereffect of coups wears off geometrically with a half-life of about six years. The log of the likelihood functions is essentially the same for both model (3) and this model.

Model (3) provides a parsimonious representation of the coup data while preserving the overall fit of the model. However, the change in the log of the likelihood function (which falls by only 9.33 as a result of 11 independent restrictions) cannot form the basis of a classical hypothesis test because the parameter consolidation embodied in model (3) is informed by previous examination of the data.

A key implication of model (3) is that a past history of coups makes further coups more likely. The impact coefficients for recent coups, γ_1, and for coups in the more distant past, γ_2, are significant and positive; though recent coups have a greater impact on the current propensity to a coup.

It has been suggested that recent independence inhibits coups.[21] To test the hypothesis that newly independent countries are at a reduced risk of a coup, we extend the specification of equation (3) by incorporating the amount of time elapsed since independence into equation (4). Because the effect of time since independence may be nonlinear, we add

[21] O'Kane (fn. 4, 1981), 289-96.

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a cubic polynomial in this variable, a_{it}. That is, we estimate a separate coefficient for a_{it}, a_{it}^2, and a_{it}^3. We also add an indicator, a_i, which takes on a value of 1 if country i gained autonomy after 1950; otherwise it equals 0. This yields the following equation:

$$z_{it}^* = \delta_0 + \delta_1 \sum_{s=1}^{L} c_{it-s} + \delta_2 \sum_{s=L+1}^{T} c_{it-s} + \delta_3 a_{it} + \delta_4 a_{it}^2 + \delta_5 a_{it}^3 + \delta_6 a_i + \eta_{it} \quad (4)$$

Estimates of equation (4) are reported in column three of Table 5. The hypothesis that the effects of newly gained independence are constant corresponds to $\delta_s = 0$ for $s \in \{3, 4, 5\}$. To test this hypothesis, we reestimate the model, omitting the a_{it} terms. This amounts to imposing three independent restrictions on model (4) and implies that the effects of post-1950 independence, as measured by δ_6, are constant over time. These estimates are reported in column four of Table 5.

The likelihood ratio test statistic for the null hypothesis of no change has an asymptotic χ_3^2 distribution. The test statistic assumes a value of 2.47, corresponding to a p-value of 0.480. At the $\alpha = 0.05$ significance level, this indicates acceptance of the null hypothesis that the effects of recent (that is, post-1950) independence do not change over time. Moreover, the estimates of the restricted version of equation (4) reported in column four of Table 4 indicate that recent independence has no effect at all. The impact of post-1950 independence on the coup propensity is measured by δ_6. Our estimate of this parameter is smaller than its standard error. Although the "recent independence" effect is discussed at length in the literature, our data do not suggest that, controlling for a country's past history of coups, post-1950 independence makes a country any more or less disposed toward a coup.

We complete our analysis of coups by adding past economic performance and regional indicator variables to our model:

$$\begin{aligned} z_{it}^* = \lambda_0 + \lambda_1 \left(\sum_{s=1}^{6} c_{it-s}\right) + \lambda_2 \left(\sum_{s=7}^{T} c_{it-s}\right) + \lambda_3 y_{it-1} \\ + \lambda_4 \Delta y_{it-1} + \sum_{j=5}^{9} \lambda_j r_{ij} - \eta_{it} \end{aligned} \quad (5)$$

where y_{it-1} denotes the log of per capita income in country i during year $t-1$, Δy_{it-1} is the change in the log of per capita income between $t-2$ and $t-1$, and r_{ij} is a zero/one variable that indicates whether country i is located in region j. For example, in the case of Algebra, the indicator for Africa assumes a value of 1, while all other region indicators are set to 0.

The parameter λ_1 measures the cumulative impact of coups during the recent past (no more than six years ago) on the current coup propen-

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sity; λ_2 measures the aftereffects of coups in the more distant past; λ_3 measures the impact of the previous period's level of per capita income; and λ_4 measures the effects of the last period's growth. The remaining parameters measure regional effects: λ_5 measures the effect of location in Africa; λ_6 and λ_7 measure the effects of location in Europe/North America and in South America, respectively; λ_8 and λ_9 measure the effects of location in the Caribbean/Central America and in Oceania respectively. The Asia effect is subsumed into the intercept term, λ_0.

To estimate model (5), we use all 2,798 observations for which complete two-year histories are available. The resulting estimates appear in column one of Table 6. The effect of the last period's income as measured by λ_3 is consistent with the results in the preceding section; income has a large and statistically significant coup-inhibiting effect. All else being equal, for a country at the sample mean, a doubling of per capita income leads to a 37.4 percent reduction in the annual probability of a coup, from 0.0615 to 0.0385. The average probability of a coup in our subsample of 2,798 observations for which two-year histories are available is 0.0615, slightly higher than the 0.0507 mean probability for the entire sample of 3,036.

The estimated parameters for this model also include some surprises. For example, the estimated coefficient of the last period's growth rate, λ_4, is imprecisely estimated and insignificant. Several of the region-specific coefficients are also insignificant. Notably, the coefficient estimated for Africa differs insignificantly from zero. African countries are more susceptible to coups because they are poor, not because they are African.[22]

The only regional effect that is significant is that for South America. Many South American countries became independent well before 1950, however, and are notorious for having suffered coups during the 1930s and 1940s.[23] Thus, the "South America effect" may really be the after-effect of coups occurring before 1950. An adequate resolution of this question will require collection of pre-1950 coup data for the countries that were independent at the beginning of our sample period.

As indicated by the significant and positive coefficient for recent coups, a past history of successful coups puts a country at greater risk of yet further coups. This past-coup effect, however, appears to wear off with the passage of time. This comports with the recent finding of Bienen and Van De Walle that African leaders who acquire power by

[22] McGowan and Johnson (fn. 4), 652-60.

[23] Cf. the discussion in Finer (fn. 2), 154-57, in which he describes the specialized Spanish vocabulary developed in Latin America for coups d'état.

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TABLE 6
PARAMETER ESTIMATES FOR MODELS (5) AND (7)[a]

	Dependent Variable	
	Coup d'Etat[b]	*Change in per capita GDP*[c]
Intercept	0.878	0.074
	(0.608)	(0.012)
Recent coups	0.181	0.0004
	(0.046)	(0.0015)
Past coups	0.040	−0.003
	(0.034)	(0.001)
Last period's (log of) per capita income	−0.374	−0.007
	(0.087)	(0.002)
Last period's growth rate	−1.000	0.168
	(0.651)	(0.019)
Africa	−0.145	−0.018
	(0.136)	(0.004)
Europe and North America	0.002	0.012
	(0.188)	(0.004)
South America	0.575	−0.004
	(0.148)	(0.004)
Central America and Caribbean	0.135	−0.007
	(0.156)	(0.004)
Oceania	−0.385	0.002
	(0.474)	(0.006)
Number of observations	2,798	2,798
Log of the likelihood function	−510.502	3894.0985
r-square		0.172
Standard error of the estimate		0.057

[a] Standard errors are shown in parentheses.
[b] Estimated by probit.
[c] Estimated by ordinary least squares.

extralegal means stand at increased risk of losing power during the first two years of their rule.[24] Further research by Bienen and Van De Walle, based on a larger sample of leaders, indicates that, although nonconstitutional entry places leaders at greater risk of losing power during the beginning of their rule, this risk falls over time. Beyond four years, the risk of losing power is actually lower for them than for leaders who acquire power by constitutional means.[25] This finding aligns with the

[24] Bienen and Van De Walle (fn. 11), 30-31.
[25] Bienen and Van De Walle, "Of Time and Power," mimeo (Princeton: Princeton University, 1989), chap. 5, pp. 24 and 25, and Table 8.

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insignificant coefficient in Table 6 for coups that occurred more than six years in the past.

Our model of coups is constructed "from the ground up," beginning with a simple autoregressive model of coups, and then adding economic and regional variables. This method raises the concern that our results might have been different if we had first estimated model (5), which includes regional and economic variables, and *then* tested (a) O'Kane's recent independence hypothesis; and (b) our restrictions on the lag structure of coups. For example, the results of the test of O'Kane's hypothesis could differ due to correlation between omitted economic and regional variables, on the one hand, and age since independence, on the other.

To guard against the possibility that our results might be an artifact of bias created by omitted variables, we reran our tests including the economic and regional variables. Even though this procedure does not constitute an independent set of tests, it is reassuring to know that the results did not change. The alternative approach did not uncover evidence of any "new independence" effect; nor did the restriction of the lag structure for coups to "recent coups" and "coups in the more distant past" lead to significant erosion of the goodness of fit. To be specific, the likelihood ratio test of the null hypotheses that the "new independence effect" is constant over time (zero coefficients for a_{it}, a_{it}^2, and a_{it}^3), and that there is no "new independence effect" (a coefficient of zero for a_i) were 6.073 and 0.487 respectively, generating p-values of 0.194 and 0.485, which indicate acceptance at all conventional levels.

B. A Model of Income

The dependence of coups on income raises the important question whether low income can be said to cause coups or whether coups cause poor economic growth. The parameter estimates in column one of Table 6 certainly indicate that income "Granger-causes" coups,[26] in the sense that including both past income and a country's past history of coups among the explanatory variables improves the fit obtained when only lagged coups are included in the model. In order to learn about the contemporaneous effect of coups on growth and of growth on coups, however, we must construct a model that accounts for joint endogeneity of economic growth and coups d'état.

A necessary first step toward such a model is the construction of a simple model of per capita GDP. Since it is known that output is strongly correlated over time, we fit an autoregressive model of per capita GDP

[26] C.W.J. Granger, "Investigating Causal Relations by Econometric Models and Cross-Spectral Methods," *Econometrica* 37 (July 1969), 424-38; Engle, Hendry, and Richard (fn. 20), 280.

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$$\Delta y_{it} = \alpha_0 + \alpha_1 y_{it-1} + \sum_{j=1}^{T-1} \alpha_{j+1} \Delta y_{it-j} + \epsilon_{it} \quad (6)$$

where y_{it} is the natural logarithm of per capita GDP during year t for country i, and Δy_{it} is the change in per capita GDP in country i between year $t-1$ and year t.

Notice that equation (6) is algebraically equivalent to the "levels" specification

$$y_{it} = \beta_0 + \sum_{j=1}^{T} \beta_j y_{it-j} + \epsilon_{it}$$

where $\beta_0 = \alpha_0$, $\beta_1 = 1 + \alpha_1 + \alpha_2$, $\beta_j = \alpha_{j+1} - \alpha_j$, for $1 < j < T$, and $\beta_T = -\alpha_T$. Because per capita income exhibits a high degree of serial persistence, this specification yields falsely reassuring values of R^2 (above 0.99), whereas the challenge is to predict the change of per capita income. Accordingly, we have chosen to work with equation (6).

We obtain an adequate representation of the process generating per capita income by setting $T = 2$. The likelihood ratio test statistic against inclusion of Δy_{it-2} is 2.4652, well below the 5 percent asymptotic critical value of 3.84. The errors from our estimates of equation (7) generated a Durbin-Watson statistic of 1.9805 and a first-order autocorrelation of 0.0059, with a standard error of 0.0566. These results indicate that there is no correlation remaining in the residuals. This precludes our having to use instrumented estimates of Δy_{it-1}, a procedure employed by Zuk and Thompson to study the impact of coups on military spending.[27]

Because our data are a cross section of time series, we can employ standard techniques to test the null hypothesis of a zero coefficient for y_{it-1} despite the nonstationarity of the GDP process under this hypothesis. If we had only a single long time series, the coefficient of y_{it-1} would not be asymptotically normally distributed, and we would have to resort to alternative testing procedures.[28]

Next, we consider a model that incorporates the effect of other predetermined variables, such as a country's past experience with coups, and regional indicator variables introduced in the analysis of the coup propensity in the preceding subsection; namely

$$\begin{aligned} \Delta y_{it} = \beta_0 + \beta_1 \left(\sum_{s=1}^{6} c_{it-s}\right) + \beta_2 \left(\sum_{s=7}^{32} c_{it-s}\right) + \beta_3 y_{it-1} \\ + \beta_4 \Delta y_{it-1} + \sum_{j=5}^{9} \beta_j r_{ij} + \epsilon_{it} \end{aligned} \quad (7)$$

[27] Zuk and Thompson (fn. 3), 65.

[28] David A. Dickey and Wayne A. Fuller, "Likelihood Ratio Statistics for Autoregressive Time Series with a Unit Root," *Econometrica* 49 (July 1981), 1057-72.

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Estimated parameter values for this model appear in column two of Table 6. Recent coups have a statistically insignificant coefficient, but coups in the distant past have a slight, statistically significant growth-inhibiting effect. However, we lack a convincing explanation for the delayed emergence of economic aftershocks with such a long lag.

Lagged income has a small growth-inhibiting effect. All else being equal, per capita income grows at a slower rate in wealthy countries than in poor ones, as would be the case if there were decreasing returns to scale in the growth technology. Barro also estimates a small but significant negative coefficient for per capita income in an income-growth equation for a cross section of countries.[29] As a check against the possibility that the small negative coefficient of y_{it-1} is merely the product of short-sample bias,[30] we reestimate our model using only countries for which we have data for all thirty-three years of the sample period. The degree of short-sample bias will be reduced in this subsample. Yet, even in this subsample of countries, the coefficient of y_{it-1} remains significantly negative.

The regional indicators play a significant role in our model. In general, African countries have substantially slower rates of growth than Asian countries.[31] Central America and the Caribbean are also plagued by slow growth. Western Europe and North America grow somewhat more rapidly (controlling for their high per capita incomes) than the Asian countries. The significance of the regional indicators suggests that there may be interregional heterogeneity among the other parameters of our model. This question is addressed in the context of the joint model we develop in the next section.

A theoretical case can be made for including population and population growth among the explanatory variables in the growth equation.[32] When we estimate population growth and income growth as a system of Seemingly Unrelated Regression Equations[33] we find that shocks to the population-growth and income-growth equations are correlated (we estimate $\rho = -0.092$). However, the coefficients of lagged population and lagged population growth are insignificant in the GDP growth equation.

[29] Robert J. Barro, "A Cross-Country Study of Growth, Saving, and Government," *National Bureau of Economic Research Working Paper Series* 2855 (February 1989), 27.

[30] See F.H.C. Marriott and J. A. Pope, "Bias in the Estimation of Autocorrelations," *Biometrika* 41 (December 1954), 390-402; and M. G. Kendall, "Note on Bias in the Estimation of Autocorrelation," *Biometrika* 41 (December 1954), 403-4.

[31] McGowan and Johnson (fn. 4), 655.

[32] Barro (fn. 29), 12-17.

[33] See A. C. Harvey, *The Econometric Analysis of Time Series* (Oxford: Phillip Allan, 1981), 67-73, for a discussion of Seemingly Unrelated Regression Equations.

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C. A Simultaneous Model of Coups and Income

Our attention now turns to the construction of a model that accounts for the joint endogeneity of income growth and the propensity for a coup d'état. Because the coup variable is discrete, we cannot imbed this analysis in a standard simultaneous equations framework. Instead, we use a latent variable model pioneered by Heckman.[34] In this model, the discrete variable—in our case an indicator for whether a coup occurs—is generated by a continuous latent variable crossing a threshold, as in the probit model analyzed at the beginning of this section. Unlike the probit model, Heckman's framework accounts for the simultaneity of continuous and discrete variables; in our case, these are the current rate of growth of income and the occurrence of a coup, respectively.

As in the previous section, we let Δy_{it} denote the first difference in the natural logarithm of per capita income (as measured by gross domestic product) in country i between years $t-1$ and t; $\Delta y_{it} = y_{it} - y_{it-1}$. As before, we define z_{it}^* as the propensity of country i to have a coup during year t, while $\delta_{it} \in \{0,1\}$ is an indicator variable that assumes a value of 1 if a coup occurs in country i during year t; if not, it is equal to zero. The occurrence of a coup d'état, δ_{it}, and the propensity for a coup, z_{it}^*, are linked by the following relationship: $\delta_{it} = 1$ if $z_{it}^* > 0$, and $\delta_{it} = 0$ if $z_{it}^* < 0$. In other words, whenever z_{it}^* exceeds zero, a coup occurs; otherwise, there is no coup.

In this model, the propensity for a coup and the rate of economic growth are jointly determined by a pair of simultaneous equations of the following form:

$$\Delta y_{it} = \boldsymbol{x}_{1it}\boldsymbol{\alpha}_{11} + \boldsymbol{x}_{wit}\boldsymbol{\alpha}_{1w} + z_{it}^*\gamma_1 + u_{1it} \quad (8a)$$

$$z_{it}^* = \boldsymbol{x}_{wit}\boldsymbol{\alpha}_{2w} + \boldsymbol{x}_{2it}\boldsymbol{\alpha}_{22} + \Delta y_{it}\gamma_2 + u_{2it} \quad (8b)$$

According to this specification, the current growth rate, Δy_{it}, is systematically affected by the current coup propensity, z_{it}^*, as well as some predetermined variables, $\boldsymbol{x}_{1it}$ and $\boldsymbol{x}_{wit}$.[35] Similarly, the model allows for a direct impact on the coup propensity of the current growth rate (measured by γ_2), as well as another (potentially different) set of predetermined variables, $\boldsymbol{x}_{wit}$ and $\boldsymbol{x}_{2it}$. A key feature of this specification is the potential exclusion of a subset of k_1 variables, $\boldsymbol{x}_1$, from the coup equation, and another subset, consisting of k_2 variables, $\boldsymbol{x}_2$, from the GDP growth equation. The error terms (u_{1it} and u_{2it}) are distributed according to a

[34] James J. Heckman, "Dummy Endogenous Variables in a Simultaneous Equation System," *Econometrica* 46 (July 1978), 931-59.

[35] Using the definition given by Engle, Hendry, and Richard (fn. 20), 280.

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bivariate normal probability distribution with zero mean, and a variance-covariance matrix Ω (whose i,j^{th} element we denote ω_{ij}).

Equations (8a) and (8b) depart from the univariate models of the preceding sections in two important ways. First, they allow for correlation of the disturbance terms of the coup and growth equations. Second, they allow for simultaneous feedback between the coup propensity and the rate of growth.

The first question to be addressed in this framework is whether either series is predetermined with respect to the other.[36] If the error terms are correlated with one another, this will not be the case. If income growth were predetermined with respect to coups, we could consistently estimate its impact by simply including it among the explanatory variables in the coup equation (as has been done by others).[37] In the absence of predeterminedness, however, estimates that treat income as an exogenous variable on the right-hand side of a coup equation (or coups as an exogenous variable on the right-hand side of an income-growth equation) will be biased.

Failure of coups and income to be predetermined with respect to one another may simply be a result of common shocks to both processes. For example, an unsuccessful foreign war may hobble economic growth and simultaneously precipitate a coup d'état. By contrast, lowered income may trigger a coup directly rather than merely stem from a common cause. Our model allows for more direct feedback between the two processes via the parameters γ_1 and γ_2, and includes previous coups and lagged income among the predetermined variables in each equation.

Ideally, we would like to include all of the right-hand side variables from the stand-alone coup model, equation (5), and the stand-alone income-growth model, equation (7), in both the coup and income-growth equations of our simultaneous system. However, if we do so, we will fail to identify the model fully.[38]

One means of identifying the model is to impose the restrictions $\gamma_1 = 0$ and $\gamma_2 = 0$. Identification can also be achieved by excluding from the coup equation at least one predetermined variable that appears in the growth equation, and excluding from the growth equation at least one predetermined variable that appears in the coup equation (e.g., setting $k_1 \geq 1$, and $k_2 \geq 1$). In order to *test* our model, we require at least one

[36] *Ibid.*

[37] Jackman (fn. 4); O'Kane (fn. 4, 1981 and 1983); McGowan and Johnson (fn. 4); Johnson, Slater, and McGowan (fn. 4).

[38] Thomas J. Rothenberg, "Efficient Estimation with a priori Information," *Cowles Foundation Monograph* 23 (New Haven: Yale University Press, 1973), provides a comprehensive discussion of identification in models with endogenous explanatory variables.

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overidentifying restriction in addition to the two restrictions needed to identify the model fully.

Fully efficient estimates of equations (8a) and (8b) can be obtained by using the joint two-stage Amemiya's Generalized Least Squares (AGLS) estimation method, which is shown by Newey to be asymptotically equivalent to Full Information Maximum Likelihood estimation (FIML).[39] This procedure requires that we first estimate a reduced-form version of (8a) and (8b) in which all of the exogenous right-hand side variables are included in both equations.

$$\Delta y_{it} = \boldsymbol{x}_{1it}\boldsymbol{\pi}_{11} + \boldsymbol{x}_{wit}\boldsymbol{\pi}_{1w} + \boldsymbol{x}_{2it}\boldsymbol{\pi}_{12} + v_{1it} \quad (9a)$$

$$z_{it}^{*} = \boldsymbol{x}_{1it}\boldsymbol{\pi}_{21} + \boldsymbol{x}_{wit}\boldsymbol{\pi}_{2w} + \boldsymbol{x}_{2it}\boldsymbol{\pi}_{22} - v_{2it} \quad (9b)$$

Because we cannot observe the coup propensity directly, but only whether it is positive, we can identify the parameters of the model only up to a factor of proportionality. To identify the model, we impose an arbitrary but convenient normalization of the variance of the disturbance term (u_{2it}) in the coup equation (8b):

$$\omega_{22} = 1 - 2\gamma_1\gamma_2 + \gamma_1^2\gamma_2^2 - \gamma_2^2\omega_{11} - 2\gamma_2\omega_{12}$$

This normalization is convenient because it implies that the variance of v_{2it} in equation (9b) equals 1; namely, $\sigma_{22} = 1$. After the reduced-form equations are estimated by maximum likelihood, the structural parameters of equations (8a) and (8b)—$\boldsymbol{\alpha}_{11}$, $\boldsymbol{\alpha}_{1w}$, $\boldsymbol{\alpha}_{2w}$, $\boldsymbol{\alpha}_{22}$, γ_1, and γ_2—are recovered from the reduced-form parameters using Newey's version of the AGLS procedure.[40] Estimates of the standard error of the disturbance term of the income-growth equation, and the correlation between the disturbances to the income-growth equation and the coup equation, emerge directly from the estimation of the reduced-form equations and are not conditional on the restrictions used to identify the parameters of the structural model.

Estimates of the parameters of the reduced-form model appear in Table 7. The correlation coefficient between the two shocks has an estimated value of 0.1323, and is almost three times as large as its standard deviation. This indicates rejection of the null hypothesis that the shocks are uncorrelated at all standard significance levels. As discussed above, correlation between the shocks implies that coups cannot be treated as predetermined in the income equation, nor is income predetermined for

[39] Whitney K. Newey, "Efficient Estimation of Limited Dependent Variable Models with Endogenous Explanatory Variables," *Journal of Econometrics* 36 (November 1987), 231-50.

[40] *Ibid.* See Appendix.

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TABLE 7
JOINT MAXIMUM LIKELIHOOD ESTIMATION OF THE REDUCED FORM EQUATIONS[a]

Dependent Variable	*Coups d'Etat*	*Change in per capita GDP*
Intercept	0.866	0.076
	(0.427)	(0.013)
Recent coups	0.184	0.0007
	(0.043)	(0.0016)
Past coups	0.041	−0.0033
	(0.032)	(0.0016)
Last period's (log of) per capita income	−0.367	−0.007
	(0.061)	(0.002)
Last period's growth rate	−1.102	0.160
	(0.743)	(0.032)
Africa	−0.184	−0.017
	(0.111)	(0.003)
Europe and North America	−0.034	0.013
	(0.001)	(0.003)
South America	0.539	−0.003
	(0.131)	(0.004)
Covariance parameters	$\hat{\rho}$ = 0.1323	
	(0.0453)	
	$\hat{\sigma}$ = 0.0571	
	(0.0028)	
Number of observations	2,798	
Log of the likelihood function	3533.083	

[a] Standard errors are shown in parentheses.

the purposes of estimating the coup equation. Estimation techniques that fail to account for this joint endogeneity will result in biased estimates.

Our next question is whether the correlation between coups and income is simply the result of common influences on both (such as wars, or natural disasters), or whether they are linked by a more fundamental feedback. We begin by imposing the following restrictions: that there is no direct contemporaneous feedback between coups and income ($\gamma_1 = 0$ and $\gamma_2 = 0$), and that the past history of coups has no effect on income growth. (The latter entails omitting recent coups as well as coups in the more distant past from the growth equation.) This set of restrictions is sufficient to identify both the coup and income equations; in addition, it provides us with two overidentifying (and hence testable) restrictions.

Parameter estimates of the restricted model obtained by Newey's

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AGLS technique are reported in Table 8. The χ^2 test of the overidentifying restrictions generates a test statistic whose value is 4.419, indicating acceptance even at the $\alpha = 10$ percent significance level. Our restricted model embodies the strong result that coups do not Granger-cause income growth;[41] moreover, even the current coup propensity does not affect the rate of income growth. This means that, while coups and income appear to be affected by common influences, there is no evidence that income growth is affected by coups.

Next, we test the hypothesis that income does not affect coups. Conditional on the restrictions of the previous model, in which coups do not affect income, this hypothesis imposes two additional overidentifying restrictions. That is, it calls for the exclusion of lagged income growth and

TABLE 8
SIMULTANEOUS ESTIMATION USING NEWEY'S JOINT AGLS[a]

Dependent Variable	*Coups d'Etat*	*Change in per capita GDP*
Intercept	0.830	0.0675
	(0.428)	(0.0126)
Recent coups	0.189	[b]
	(0.035)	
Past coups	0.035	[b]
	(0.034)	
Last period's (log of) per capita income	−0.359	−0.0062
	(0.061)	(0.0017)
Last period's growth rate	−1.097	0.1485
	(0.750)	(0.0317)
Africa	−0.184	−0.0173
	(0.111)	(0.0034)
Europe and North America	−0.052	0.0127
	(0.117)	(0.0032)
South America	0.533	−0.0061
	(0.129)	(0.0036)
Current growth rate	[b]	[b]
Current coup propensity	[b]	[b]
Number of overidentifying restrictions	2	
Chi-squared Statistic	4.419	

[a] Standard errors are shown in parentheses.
[b] Constrained to equal zero.

[41] Engle, Hendry, and Richard (fn. 20), 280.

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the lagged level of income from the coup equation. This model was also estimated by Newey's AGLS technique, and generated a χ^2 statistic of 35.569 for the two additional overidentifying restrictions, indicating rejection at all levels of standard significance. Per capita income has a highly significant coup-inhibiting effect.

There is a marked similarity between the structural coefficients reported in Table 8 and the stand-alone estimates presented in Table 6. Income influences the coup propensity, but only with a lag. The previous year's per capita GDP plays a significant coup-inhibiting role. Likewise, the previous year's growth rate has an imprecisely estimated coup-inhibiting effect. At least for one form of political instability, the coup d'état, the much-discussed positive association with the rate of economic growth fails to materialize.[42]

Our results indicate that the probability of a coup depends not only on past income, but also on a country's past coup experience. We find compelling evidence of the existence of a "coup-trap": once a country has experienced a coup d'état, it has a much harder time avoiding further coups. This is consistent with the assertion that the political culture of a country is severely eroded by a successful coup, and that it takes a long time for recovery to set in.[43]

While coups inflict long-term political damage, the linkage between low income and the threat of a coup provides an incentive even for authoritarian governments to promote economic growth. In democracies, elections are used to motivate governments to spur economic growth; those that fail are likely to be turned out of office by the voters. In nondemocratic countries, the threat of a coup appears to play a similar role.

In contrast to the marked influence of economic performance on the propensity for a coup, coups occurring in the recent past have no systematic effect on the rate of income growth. This finding, and the inability to reject the model reported in Table 8, which embodies the restriction that coups do not Granger-cause income growth,[44] is analogous to McCallum's conclusion that U.S. presidential elections do not significantly affect the growth rate.[45]

Alesina observes that McCallum's results are consistent with the hypothesis that the election of Republican presidents causes slower-than-average growth, while election victories by Democratic presidential

[42] Olson (fn. 6).
[43] Finer (fn. 2).
[44] Engle, Hendry, and Richard (fn. 20), 280.
[45] Bennett McCallum, "The Political Business Cycle: An Empirical Test," *Southern Economic Journal* 44 (January 1978), 504-15.

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candidates spur above-normal growth.[46] The estimated value of the regression coefficient for elections will be a weighted average of supernormal growth following Democratic election victories and subnormal growth after Republican ones. These two effects may cancel each other, resulting in an estimated coefficient of zero.

In a similar vein, the insignificant coefficient for recent coups in the growth equation may be the result of averaging coups staged by progrowth factions and those staged by factions whose policies retard the rate of economic growth. Lacking a way to distinguish these two types of coups from one another on a priori grounds, we cannot use the coefficient of lagged coups to distinguish decisively between the hypothesis that coups have no effect and the alternative that there is a bimodal population of coups, some of which enhance growth while others retard it.

The coefficient on lagged coups is not the only means of distinguishing the "coups-have-no-effect" hypothesis from the "bimodal population" hypothesis. If coups are really a bimodal population, we should expect greater variation of the residuals from the growth equation in coup years than in noncoup years. By contrast, the coups-have-no-effect hypothesis implies homoscedastic errors that are equally dispersed in coup and noncoup years. When we calculate separate standard errors for the coup years and the noncoup years, we find that the standard error of the growth equation (estimated on the whole sample) is 40 percent higher (0.0784) in years in which there is a coup d'état than in years in which there is none (0.0558). This is consistent with the bimodal population hypothesis.

Governments that come to power through a coup can influence the rate of economic growth, just as popularly elected governments can. Our results indicate, however, that the coup itself does not significantly affect the rate of growth; nor are governments that are newly installed via a coup systematically different from other governments in their effect on growth (although there are other undeniable differences).

The lack of systematic short-term economic effects resulting from coups highlights the distinction between revolutions, which cause major disruption and reorganization of societies, and coups, which frequently involve the seizure of the preexisting power structure but not its destruction.

The significance of the region-specific effects raises the possibility that there are differences in the effects of coups and income in different

[46] Alberto Alesina, "Macroeconomics and Politics," in Stanley Fisher, ed., *National Bureau of Economic Research Macroeconomics Annual 1988* (Cambridge: MIT Press, 1989).

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regions as well. That is, the π parameters in equations (9a) and (9b) may differ among regions. The Hausman test provides a suitable framework to detect the presence of interregional heterogeneity in the parameters of our model.[47] If there is no heterogeneity, then the estimates obtained for the sample as a whole are efficient; estimating the parameters separately for different regions results in consistent but inefficient estimates. If interregional heterogeneity is present, however, the estimates for the sample as a whole will be biased, while the separate region-specific estimates will remain consistent. This puts our problem squarely within the framework of the Hausman test.

Another, more extreme, form of heterogeneity would result if each country had its own parameters, so that the growth and coup parameters for, say, Argentina would be different from the parameters for Bolivia or Indonesia. Unfortunately, if we attempted to estimate a separate set of parameters for each country, our results would be biased due to the well-known "parameter proliferation problem."[48] Although we are therefore unable to test directly for this form of heterogeneity, parameter proliferation does not prevent us from consistently estimating the degree of interregional heterogeneity.

We conduct Hausman tests of the null hypothesis of no interregional heterogeneity in the coefficients on past coups and income in the coup equation. When we estimate the parameters for Africa separately, we obtain a test statistic of 2.128 for the hypothesis of no difference from the parameters for the sample as a whole, corresponding to a p-value of 0.952. This indicates acceptance at conventional levels. Likewise, when we estimate the parameters for South America separately, they generate a Hausman test statistic of 0.150, with a p-value of 0.999, also indicating acceptance at conventional levels. When the growth equations for the OECD and non-OECD countries are allowed to have separate parameters, we obtain a test statistic of 3.770, corresponding to a p-value of 0.806. Once again, we fail to reject the hypothesis of no heterogeneity.

V. Conclusion

Our analysis indicates that the probability that a government is overthrown by a coup d'état is substantially influenced by the rate of eco-

[47] J. A. Hausman, "Specification Tests in Econometrics," *Econometrica* 46 (November 1978), 1251-71.

[48] For discussion of this problem, see Stephen Nickell, "Biases in Dynamic Models with Fixed Effects," *Econometrica* 49 (November 1981), 1417-26; see also the discussion by Gary Chamberlin, "Panel Data," in Zvi Grilliches and M. Intrilligator, eds., *The Handbook of Econometrics: Volume II* (Amsterdam: North Holland, 1983), 1248-1318, at 1256.

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nomic growth. The negative association between successful coups and income is more pronounced than any of the interrelationships among the political variables in our data. We construct a parametric model of the coup process and uncover some surprises: the effect of recent independence, often considered to be an important inhibitor of coups, is found to be insignificant.

When the simultaneity of income and coups is accounted for, we find that coups spawn countercoups. The probability of a coup is increased markedly when previous governments have been overthrown. This is consistent with Finer's view that coups have substantial political aftereffects.

The coup-inhibiting effect of income is dramatic. For this reason, even authoritarian governments have powerful incentives to promote economic growth, not out of concern for the welfare of their citizens, but because failure to deliver adequate economic performance may lead to their own downfall. By contrast, we uncover little evidence of feedback from coups to income growth. Our findings are consistent with the hypothesis that poverty spawns coups, but that coups do not have economic effects.

Huntington asserted that political instability is negatively related to "modernity," but provoked by "modernization."[49] We agree with Jackman that a meaningful empirical assessment of the interrelationships among such "umbrella concepts" must "focus on their separate components."[50] Our analysis represents one empirical piece of the "political instability and modernization" puzzle. We find that although Huntington's assertion may be true in general, for our narrowly defined variables, coups d'état (one facet of instability) are negatively related to *both* the level of income (one component of modernity) *and* the rate of economic growth (one dimension of modernization).

APPENDIX

Estimation of the Joint Model of Section IV

This appendix provides details of the technique used to estimate the simultaneous equations model given by equations (8a) and (8b). To begin with, we employ some simplifying notation. We let J denote the number of countries in our sample, indexed by $i \in \{1, \ldots, J\}$, with country i providing T_i annual observations, indexed by $t \in \{1, \ldots, T_i\}$. Denote the 1 by 2 vector

[49] Huntington (fn. 5), 41.

[50] Robert W. Jackman, "Cross-Sectional Statistical Research and the Study of Comparative Politics," *American Journal of Political Science* 29 (February 1985), 161-82, at 169.

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$(\Delta y_{it}, z_{it}^*)$ by $\mathbf{y}_{it}$, and define δ_{it} as $\delta_{it} \equiv 1_{\{z_{it}^* > 0\}}$, a function that assumes a value of "1" if z_{it}^* is positive, and equals zero otherwise. Denote by $\mathbf{x}_{it}$ the 1 by $(k_1 + k_w + k_2)$ vector $(\mathbf{x}_{1it}, \mathbf{x}_{wit}, \mathbf{x}_{2it})$, which consists of all the variables that enter either equation (8a) or equation (8b). We define the 1 by 2 disturbance vector $\mathbf{u}_{it}$ as $\mathbf{u}_{it} \equiv (u_{1it}, u_{2it})$, and the $1 \times (2 + k_1 + 2k_w + k_2)$ row vector $\boldsymbol{\alpha}$ is defined as

$$\boldsymbol{\alpha} \equiv (\gamma_1, \gamma_2, \boldsymbol{\alpha}_{11}, \boldsymbol{\alpha}_{1w}, \boldsymbol{\alpha}_{2w}, \boldsymbol{\alpha}_{22}).$$

Recall that γ_1, and γ_2 are scalars, $\boldsymbol{\alpha}_{11}$ is a 1 by k_1 vector, $\boldsymbol{\alpha}_{22}$ is a 1 by k_2 vector, while $\boldsymbol{\alpha}_{1w}$ and $\boldsymbol{\alpha}_{2w}$ are 1 by k_w row vectors. Let $K = k_1 + k_w + k_2$ and let $E(\mathbf{u}\mathbf{u}') = \boldsymbol{\Omega}$. Define the vector functions $\Gamma(\boldsymbol{\alpha})$, and $\mathbf{A}(\boldsymbol{\alpha})$ as follows:

$$\Gamma(\boldsymbol{\alpha}) = \begin{bmatrix} 1 & -\gamma_2 \\ -\gamma_1 & 1 \end{bmatrix} \quad \mathbf{A}(\boldsymbol{\alpha}) = \begin{bmatrix} \boldsymbol{\alpha}_{11}' & \mathbf{0}' \\ \boldsymbol{\alpha}_{1w}' & \boldsymbol{\alpha}_{2w}' \\ \mathbf{0}' & \boldsymbol{\alpha}_{22}' \end{bmatrix}$$

where $\Gamma(\boldsymbol{\alpha})$ is a 2 by 2 matrix, and $A(\boldsymbol{\alpha})$ is a K by 2 matrix, and the zero vectors are defined conformably.

Using this notation, we can write equations (8a) and (8b) in the more streamlined form:

$$\mathbf{y}_{it}\Gamma(\boldsymbol{\alpha}) = \mathbf{x}_{it}\mathbf{A}(\boldsymbol{\alpha}) + \mathbf{u}_{it} \tag{A.1}$$

Postmultiplying both sides of equation (A.1) by $[\Gamma(\boldsymbol{\alpha})]^{-1}$ results in a convenient expression for equations (9a) and (9b):

$$\mathbf{y}_{it} = \mathbf{x}_{it}\boldsymbol{\Pi}(\boldsymbol{\alpha}) + \mathbf{v}_{it} \tag{A.2}$$

where $\boldsymbol{\Pi}(\boldsymbol{\alpha}) = \mathbf{A}(\boldsymbol{\alpha})[\Gamma(\boldsymbol{\alpha})]^{-1}$ is the K by 2 matrix of reduced form parameters. For convenience, let $\boldsymbol{\pi}_1(\boldsymbol{\alpha})$ denote the first column of $\boldsymbol{\pi}(\boldsymbol{\alpha})$, and $\boldsymbol{\pi}_2$ $(\boldsymbol{\alpha})$ the second column. Notice that the vector of disturbances from equation (A.2) satisfies: $\mathbf{v} = \mathbf{u}[\Gamma(\boldsymbol{\alpha})]^{-1}$.

If we let $\boldsymbol{\Sigma}$ denote the variance-covariance matrix for the reduced form parameters, then we obtain:

$$\boldsymbol{\Sigma} = ([\Gamma(\boldsymbol{\alpha})]^{-1})'\boldsymbol{\Omega}([\Gamma(\boldsymbol{\alpha})]^{-1}).$$

We let ω_{ij} and σ_{ij} denote the $(i,j)^{th}$ elements of $\boldsymbol{\Omega}$ and $\boldsymbol{\Sigma}$ respectively. To simplify the estimation, we impose the restriction that $\sigma_{22} = 1$. This results in a fairly messy normalization of ω_{22}; namely

$$\omega_{22} = 1 - 2\gamma_1\gamma_2 + \gamma_1^2\gamma_2^2 - 2\gamma_2\omega_{12} - \gamma_2^2\omega_{11}.$$

This allows us to write $\boldsymbol{\Sigma}$ in the form:

$$\boldsymbol{\Sigma} = \begin{bmatrix} \sigma^2 & \rho\sigma \\ \rho\sigma & 1 \end{bmatrix}$$

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Here we let ρ denote the correlation between v_{1it} and v_{2it}, and σ^2 is the variance of v_{1it}.

We assume that $\mathbf{v}_{it}$ has a normal probability distribution. So, the joint density of v_1 and v_2 (where we suppress the (i,t) part of the subscript to avoid cluttered notation) is given by:

$$\phi(\mathbf{v}) = \frac{1}{2\pi\sigma\sqrt{(1-\rho^2)}} \exp\left(-\frac{1}{2}\,\mathbf{v}\Sigma^{-1}\mathbf{v}'\right)$$

$$\phi(\mathbf{v}) = \frac{1}{2\pi\sigma\sqrt{(1-\rho^2)}} \exp\left(-\frac{1}{2\sigma^2(1-\rho^2)}\,(v_1^2 - 2\rho\sigma v_1 v_2 + \sigma^2 v_2^2)\right).$$

Completing the square, this expression simplifies to:

$$\phi(\mathbf{v}) = \frac{1}{2\pi\sigma\sqrt{1-\rho^2}} \exp\left\{-\frac{1}{2(1-\rho^2)\sigma^2}\,(v_1^2(1-\rho^2) + (\sigma v_2 - \rho v_1)^2)\right\}.$$

Now, define:

$$\Phi(z;\tau) = \frac{1}{\sqrt{2\pi}\tau} \exp\left\{-\frac{z^2}{2\tau^2}\right\}$$

and the corresponding cumulative density function as:

$$\Phi(z,\tau) = \int_{-\infty}^{z} \Phi(v^*;\tau)\,dv^*.$$

This allows $\phi(\mathbf{v})$ to be factorized into:

$$\phi(\mathbf{v}) = \Phi(v_1;\sigma)\Phi(v_2 - (\rho/\sigma)v_1;(1-\rho^2)^{1/2}).$$

Accordingly, the contribution of the $(i,t)^{th}$ observation to the likelihood function is:

$$l_{it} = \delta_{it}\ln\left(\int_{-\infty}^{\mathbf{x}_{it}\pi_2(\alpha)} \Phi(v_{1it};\sigma)\Phi(v^* - \rho/\sigma v_{1it};(1-\rho^2)^{1/2})dv)^*\right)$$

$$+ (1-\delta_{it})\ln\left(\int_{\mathbf{x}_{it}\pi_2(\alpha)}^{\infty} \Phi(v_{1it};\sigma)\Phi(v^* - \rho/\sigma v_{1it};(1-\rho^2)^{1/2})dv^*\right)$$

where $v_{1it} = \Delta y_{it} - \mathbf{x}_{it}\pi_1(\alpha)$.

These integrals can be more simply written by using a change of variables, namely:

$$w^* = (v^* - \rho/\sigma v_{1it})/\sqrt{1-\rho^2}.$$

This leads to the simplified expression:

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$$l_{it} = \delta_{it}\ln\Phi((\mathbf{x}_{it}\boldsymbol{\pi}_2(\alpha) - (\rho/\sigma)v_{1it})/(1-\rho^2)^{1/2};1) + (1-\delta_{it})\ln[1-\Phi((\mathbf{x}_{it}\boldsymbol{\pi}_2(\alpha) - (\rho/\sigma)v_{1it})/(1-\rho^2)^{1/2};1)] + \ln\phi(v_{it};\sigma) \quad (A.3)$$

with $v_{1it} = \Delta y_{it} - \mathbf{x}_{it}\boldsymbol{\pi}_1(\alpha)$. We shall adopt the streamlined notation:

$$l^*(\alpha,\rho,\sigma) = l(\Pi(\alpha),\rho,\sigma) = \sum_{i=1}^{J}\sum_{t=1}^{T_i} l_{it}. \quad (A.4)$$

Notice that $l^*(\alpha,\rho,\sigma)$ depends on the parameter α directly, whereas $l(\Pi(\alpha),\rho,\sigma)$ depends on α only *indirectly,* through the Π-matrix. This distinction must be borne in mind in what follows.

Having defined the likelihood function, we could proceed to maximize it directly. However, as a practical matter, the function $l^*(\alpha,\rho,\sigma)$ is fairly impervious to standard maximization techniques. We employ the practical alternative of Amemiya's GLS technique, as refined by Newey (fn. 39). We proceed in two stages. In Stage 1, we maximize $l(\Pi,\rho,\sigma)$ with respect to Π, ρ, σ. In Stage 2, we use a variant of the minimum χ^2 technique to recover α from our estimate of Π.

Stage 1: Estimating the "Reduced Form" Parameters: Π

First, we exploit the fact that our likelihood function factors into the product of the likelihood function corresponding to the growth equation, whose log is given by:

$$\ln\phi(v_{1it};\sigma)$$

and the likelihood function of a probit model that corresponds to the coup equation, amended by the addition of v_{1it} to the other conditioning variables:

$$\delta_{it}\ln\Phi((\mathbf{X}_{it}\boldsymbol{\pi}_2(\alpha) - (\rho/\sigma)v_{1it};1)/((1-\rho^2)^{1/2}) + (1-\delta_{it})\ln[1-\Phi((\mathbf{X}_{it}\boldsymbol{\pi}_2(\alpha) - (\rho/\sigma)v_{1it};1)/((1-\rho^2)^{1/2})].$$

This enables us to obtain our estimates of Π, ρ, and σ in three steps:

(1) Run an ordinary least squares (OLS) regression of Δy_{it} on $\mathbf{x}_{it}$. Let ψ_1 denote the estimated K by 1 parameter vector from this regression, and let e_{it} denote the residual: $e_{it} = \Delta y_{it} - \mathbf{x}_{it}\psi_1$. The standard error of this regression is:

$$\tau = [[\sum_{i=1}^{J}\sum_{t=1}^{T_i} e_{it}^2]/[\sum_{i=1}^{J} T_i]]^{1/2}$$

(2) Estimate a probit model with ξ_{it} as the dependent variable, where $\xi_{it} \equiv 1_{\{z_{it}^*>0\}}$, and $\mathbf{x}_{it}$, and e_{it} are the independent variables. Let ψ_2 denote the vector of coefficients of $\mathbf{x}_{it}$, and ζ the coefficient of e_{it}.

Notice that in equation (A.3), the argument of the normal cumulative density functions is:

$$(\mathbf{x}_{it}\boldsymbol{\pi}_2(\alpha) - (\rho/\sigma)v_{1it})/(1-\rho^2)^{1/2}.$$

In the probit model estimated in this step of the procedure, the arguments of the standard normal cumulative density functions in the probit likelihood are $\mathbf{x}_{it}\psi_2 + \zeta e_{it}$.

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(3) Let $\hat{\pi}_1 = \psi_1$, $\hat{\sigma} = \tau$, $\hat{\pi}_2 = \psi_2/(1 + \zeta^2\tau^2)^{1/2}$, $\hat{\rho} = \zeta\tau/(1 + \zeta^2\tau^2)^{1/2}$, and $\hat{\Pi} = (\hat{\pi}_1 | \hat{\pi}_2)$.

These parameters *are* the maximum likelihood estimators of the reduced form parameters; Π, σ, and ρ. To be precise, $\hat{\Pi}$, σ, and $\hat{\rho}$ solve:

$$\max_{\Pi,\rho,\sigma} \; l(\Pi,\rho,\sigma).$$

This leaves us with the problem of recovering the α parameters from the $\hat{\Pi}$-matrix.

Stage 2: Recovering the "Structural Parameters" from the Π-matrix

The standard procedure for achieving this (see, for example, Rothenberg, fn. 38) is to use minimum χ^2 estimation. That is, to solve:

$$\min_{\alpha} [\text{vec}(\Pi(\alpha)) - \text{vec}(\hat{\Pi})]' \Delta_{\pi}^{-1} [\text{vec}(\Pi(\alpha)) - \text{vec}(\hat{\Pi})]$$

where for any matrix Z, vec(Z) is a column vector consisting of the columns of Z, "stacked" one atop the other, with the first column at the top, and the last at the bottom. The matrix Δ_{π} denotes the variance-covariance matrix of the estimated reduced form parameter vector: vec($\hat{\Pi}$). The minimum χ^2 technique was shown by Rothenberg (fn. 38) to be equivalent to direct maximum likelihood estimation of the structural parameters (e.g., α). However, the relation between α and vec($\hat{\Pi}$) is nonlinear, making minimum chi-squared estimation somewhat complicated.

Newey (fn. 39) establishes that the following adaptation of AGLS estimation is equivalent to minimum chi-squared estimation. To begin, we adopt the following notation: $\mathbf{0}$ denotes the 1 by K matrix of zeros, I_{2K} is the $2K$ by $2K$ identity matrix, and we denote by $I[a{:}b]$ the submatrix of I_{2K} consisting of columns a through b. Now, define

$$\mathbf{g}_1 = \begin{bmatrix} \boldsymbol{\pi}_2' \\ \hline \mathbf{0}' \end{bmatrix}, \quad \mathbf{g}_2 = \begin{bmatrix} \mathbf{0}' \\ \hline \boldsymbol{\pi}_1' \end{bmatrix},$$

and let
$$\begin{aligned} \mathbf{H}_{11} &= \mathbf{I}[1{:}k_1], \\ \mathbf{H}_{1w} &= \mathbf{I}[(k_1+1){:}(k_1+k_w)], \\ \mathbf{H}_{2w} &= \mathbf{I}[(K+k_1+1){:}(K+k_1+k_w)], \\ \mathbf{H}_{22} &= \mathbf{I}[(K+k_1+k_w+1){:}2K]. \end{aligned}$$

To estimate α, we run the following regression using generalized least squares (GLS):

$$\text{vec}(\hat{\Pi}) = \mathbf{g}_1\gamma_1 + \mathbf{g}_2\gamma_2 + \mathbf{H}_{11}\alpha_{11} + \mathbf{H}_{1w}\alpha_{1w} + \mathbf{H}_{2w}\alpha_{2w} + \mathbf{H}_{22}\alpha_{22}.$$

That is, we regress vec($\hat{\Pi}$) on $\mathbf{g}_1$,$\mathbf{g}_2$,$\mathbf{H}_{11}$,$\mathbf{H}_{1w}$,$\mathbf{H}_{2w}$, and $\mathbf{H}_{22}$ using GLS. To employ GLS, we require a consistent estimator for the variance-covariance matrix of the error. We construct this as follows:

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(1) We estimate the variance-covariance matrix of vec($\hat{\mathbf{\Pi}}$), $\mathbf{\Delta}_\pi$, via Efron's bootstrap technique (fn. 16), with 1,024 replications.
(2) We obtain consistent estimates of γ_1 and γ_2 by running the regression of vec($\hat{\mathbf{\Pi}}$) on $\mathbf{g}_1$,$\mathbf{g}_2$,$\mathbf{H}_{11}$,$\mathbf{H}_{1w}$,$\mathbf{H}_{2w}$, and $\mathbf{H}_{22}$ using OLS. The coefficients of $\mathbf{g}_1$ and $\mathbf{g}_2$ (which we denote γ_1^* and γ_2^* respectively) are consistent (but not efficient) estimators of γ_1 and γ_2.

$$\text{Let } \mathbf{\Gamma}^* = \begin{bmatrix} \mathbf{I} & -\gamma_1^* \\ -\gamma_2^* & \mathbf{I} \end{bmatrix}$$

(3) Let $\mathbf{\Sigma}_\pi = (\mathbf{I}_K \otimes \mathbf{\Gamma}^*)\mathbf{\Delta}_\pi(\mathbf{I}_K \otimes \mathbf{\Gamma}^*)'$, where I_K is the K by K identity matrix. We use $\mathbf{\Sigma}_\pi$ as our estimator of the variance-covariance matrix for the GLS regression.

Newey shows that the resulting estimate of α is fully efficient, and that the standard errors from the GLS estimator are the true standard errors.

Finally, let pred[vec($\hat{\mathbf{\Pi}}$)] denote the predicted value of vec($\hat{\mathbf{\Pi}}$) from the GLS regression of vec($\hat{\mathbf{\Pi}}$) on $\mathbf{g}_1$,$\mathbf{g}_2$,$\mathbf{H}_{11}$,$\mathbf{H}_{1w}$,$\mathbf{H}_{2w}$,$\mathbf{H}_{22}$. Then, if there are m overidentifying restrictions imposed on the model,

$$(\text{pred}[\text{vec}(\hat{\mathbf{\Pi}})] - \text{vec}(\hat{\mathbf{\Pi}}))' \mathbf{\Delta}_\pi^{-1} (\text{pred}[\text{vec}(\hat{\mathbf{\Pi}})] - \text{vec}(\hat{\mathbf{\Pi}}))$$

has (asymptotically) a χ^2 distribution with m degrees of freedom, permitting an easy test of our model.

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JAPAN AND THE THEORY OF INTERNATIONAL LEADERSHIP

By RICHARD ROSECRANCE and JENNIFER TAW*

I. Introduction

THE true interests of leaders of the global system have never been fully clarified. Some scholars and theorists contend that leading states (or "hegemons") should offer public goods to other countries to maintain a system of free trade.[1] Others have argued that provision of such goods will weaken the leader, causing it to decline relative to other states.[2] Theorists taking the first tack stress the benefits to the hegemonic nation of exercising a benevolent leadership, including facilitation of sales of its exports, at least in the early stages of the free-trade regime.[3] Those taking the second tack note that the leader's exertions generally fail to open up the rest of the world trading system, and thus produce a situation in which the leader offers an open market and others do not.[4] Under these conditions, the terms of trade deteriorate as competitors rise; their exports are buoyed while the hegemon's are depressed.

The question of the benefits and costs that the hegemon accrues from

* We would like to thank Virginia Haufler, Chalmers Johnson, Paul Kennedy, David Lake, Edward Lincoln, Ronald Morse, Ronald Rogowski, Arthur Stein, and Young-Kwan Yoon for their helpful comments and suggestions on previous drafts of this paper. We remain entirely reponsible, however, for the argument. In what follows, we will generally use the term "leader" in preference to "hegemon," for two reasons: (1) it accords with the original suggestion of Charles Kindleberger, and (2) it better represents the actual role of a leading country in the system. As we later show, that country is not "hegemonic"; rather, it is responsive to the needs of the system as a whole.

[1] See, in particular, Charles P. Kindleberger, *The World In Depression, 1919-1939* (Berkeley: University of California Press, 1973), and "Dominance and Leadership in the International Economy," *International Studies Quarterly* 25 (June 1981), 242-54; Stephen D. Krasner, "State Power and the Structure of International Trade," *World Politics* 28 (April 1976), 317-47; Robert Gilpin, *U.S. Power and the Multinational Corporation* (New York: Basic Books, 1975), *War and Change in World Politics* (New York: Cambridge University Press, 1981), and *The Political Economy of International Relations* (Princeton: Princeton University Press, 1987).

[2] See John Conybeare, "Public goods, Prisoners' Dilemmas and the International Political Economy," *International Studies Quarterly* 28 (March 1984), 5-22, and *Trade Wars* (New York: Columbia University Press, 1988), esp. chap. 3; Arthur Stein, "The Hegemon's Dilemma: Great Britain, the United States and the International Economic Order," *International Organization* 38 (Spring 1984), 355-86.

[3] See Jack Gallagher and Ronald Robinson, "The Imperialism of Free Trade," *Economic History Review*, 2nd ser., No. 6 (1953), 1-15.

[4] See Gilpin (fn. 3, 1987), chap. 3, esp. p. 78.

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exercising leadership is tied to another one, namely: If a hegemon declines, is it in the interest of other states to support the system?[5] Theories of supporter states (Lake), "*k*-groups" (Snidal), and international regimes (Keohane) all address this issue. In each case, the theorists argue that states will perceive it to be in their interest to bear some of the costs of system maintenance once the hegemon is no longer capable (or willing) to carry the full costs. These theories partly conflict with the realist position which maintains that there is a collective action problem in the international system, and that rational actors will seek to improve their own standing relative to others by free riding instead of cooperating for common purposes.

In what follows, (1) we will review the basic arguments in point, particularly those contributed by Duncan Snidal, Arthur Stein, and John Conybeare. Our conclusion is that the literature (intentionally or not) largely suggests that leaders offering public goods will lose, relatively, from assuming such a role. Similarly, it is not in the best interests of rising competitors to support a declining leader. Rather, they should seek relative gain by allowing the hegemon to continue to bear all the costs of system maintenance.

(2) As we know from history, hegemonic states have largely performed such functions, perhaps accelerating their own decline. A major question is therefore what role Japan, the inchoate economic leader of tomorrow, will assume as the United States declines. Our somewhat surprising conclusion is that (3) the trend of events suggests that Japan will also provide public goods to others, running the same risks that its predecessors faced in the past.

Finally, (4) such seemingly irrational behavior cries out for explanation and analysis. Our contention is that the leader's interests change with the evolution of its role in the international economic and monetary system. For certain periods, leaders might indeed want to be predatory (certainly not offering public goods), but, as they become creditor powers and can no longer afford to plunder the system, their interests shift. The "Sharks and Fishes" computer game offers useful insights to illuminate this process. Eventually, states undergoing industrial growth will face rising domestic demand for a profusion of consumer goods—the end result of political pressures stemming from increased income. This in-

[5] This issue is central to the work of Robert Keohane, particularly *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton: Princeton University Press, 1984); Duncan Snidal, "The Limits of Hegemonic Stability Theory," *International Organization* 39 (Autumn 1985), 579-614; David Lake, *Power, Protection and Free Trade: International Sources of U.S. Commercial Strategy, 1887-1939* (Ithaca, NY: Cornell University Press, 1988).

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trinsic process of political development will be buttressed by the presence of new factor abundance, favoring openness.[6] Recognition of this trend obliges hegemonic and prehegemonic leaders to pursue a joint strategy: of domestic as well as international political maximization. For declining leaders as well as their rising competitors, the "high politics" of relative international gain no longer dominates foreign policy calculations. Competitor states taking on the role of creditor nations will act to bolster the system.

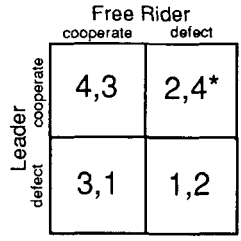
II. Will the Leader Offer Public Goods?

There has been a general assumption that the provision of public goods to others requires benevolence. Presuming a Prisoners' Dilemma incentive structure, some theorists have thought that Defect, Defect (D,D) would be the dominant outcome of the game. Actually, however, the leader plays Cooperation (C) to the free rider's Defection (D). On the assumption of a Prisoners' Dilemma, this would not occur unless the leader were benevolent (that is, willing to choose the less attractive payoff).[7]

Duncan Snidal uses Thomas Schelling's multiparty Prisoners' Dilemma analysis to show that the presence of a hegemonic leader is not strictly necessary to assure provision of the public good. He intends to prove game-theoretically that a k-group (the minimum number of co-

[6] See Ronald Rogowski, "Political Cleavages and Changing Exposure to Trade," *American Political Science Review* 81 (December 1988), 1121-38.

[7] This, however, is not Kindleberger's interpretation. The game he envisions involves the leader playing Stag Hunt against the free rider's Prisoners' Dilemma. The leader does not defect; he keeps his markets open, regardless of what the free rider does.



Game of Stag Hunt vs. Prisoner's Dilemma

*Dominant outcome

One should be aware, however, that while this matrix makes the continued C,D outcome "rational," it may not in fact be the game that the participants are playing. In other words, they may misunderstand the true nature of the game.

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operators necessary to make cooperation pay—or at least not lose) can form. He seeks to demonstrate that countries unequal in size can create a situation in which a few large states may find it potentially rewarding to cooperate among themselves to provide the public good. Although free-riding states will take advantage of the k-group, he believes all will profit from the endeavor.

Such behavior by the leader and its supporters, however, cannot be fully depicted or justified in terms of Schelling's graph. Neither Schelling nor Snidal can explain why a k-group would form, for neither can justify a second or third state joining a declining leader when the former could benefit from defecting and free riding.[8]

Figure 1 is taken from Snidal's "The Limits of Hegemonic Stability Theory."[9] In each section of the graph, the benefit of cooperating (C) versus not cooperating (NC) is portrayed for each actor. Unlike the graph in Schelling's essay, however, the position along Snidal's x-axis denotes the respective size as well as the number of the participants. Graph (a) in Figure 1 represents a situation in which cooperation will not occur because the point at which cooperation would be beneficial does not exist for any of the actors. Graph (b) represents the situation in which the leader (1) will cooperate and provide the good, but no other actor stands to benefit from doing so because the benefits from free riding (NC) are too high. According to Snidal, graph (c) indicates a situation in which state 2 will share the costs with state 1 to create the public good. Yet, as state 1 (the hegemonic leader) declines—moves from graph (b) to graph (c)—free riders (states 2 and 3) will continue to reside on the NC line. When state 1 declines sufficiently to fail to create a k-group, it will either continue to provide the collective good (even though the returns are negative), and if so, the others will continue to free ride, or it will abandon cooperation. One of the rising successors will then have to provide the good. If the declining leader strove to offer cooperation at (1) (even though its returns are negative), state 2 would opt for the NC line vertically above (1). If, against its own interests, state 2 were to cooperate at A, state 3 would move to B. In other words, the Snidal analysis does not defeat the notion that a leader will face free-riding noncooperation and that, thus, its relative position deteriorates. The Schelling-Snidal for-

[8] After all, acting in its own self-interest, a second state will generally choose the "preferred" over the "non-preferred" alternative. In Schelling's original formulation, which Snidal employs, Schelling makes it clear that the cooperative choice is also the "non-preferred" choice. See the chapter entitled "Hockey Helmets, Daylight Saving, and Other Binary Choices," in Thomas C. Schelling, *Micromotives and Macrobehavior* (New York: W. W. Norton 1978), 211-43.

[9] Duncan Snidal (fn. 5), 601.

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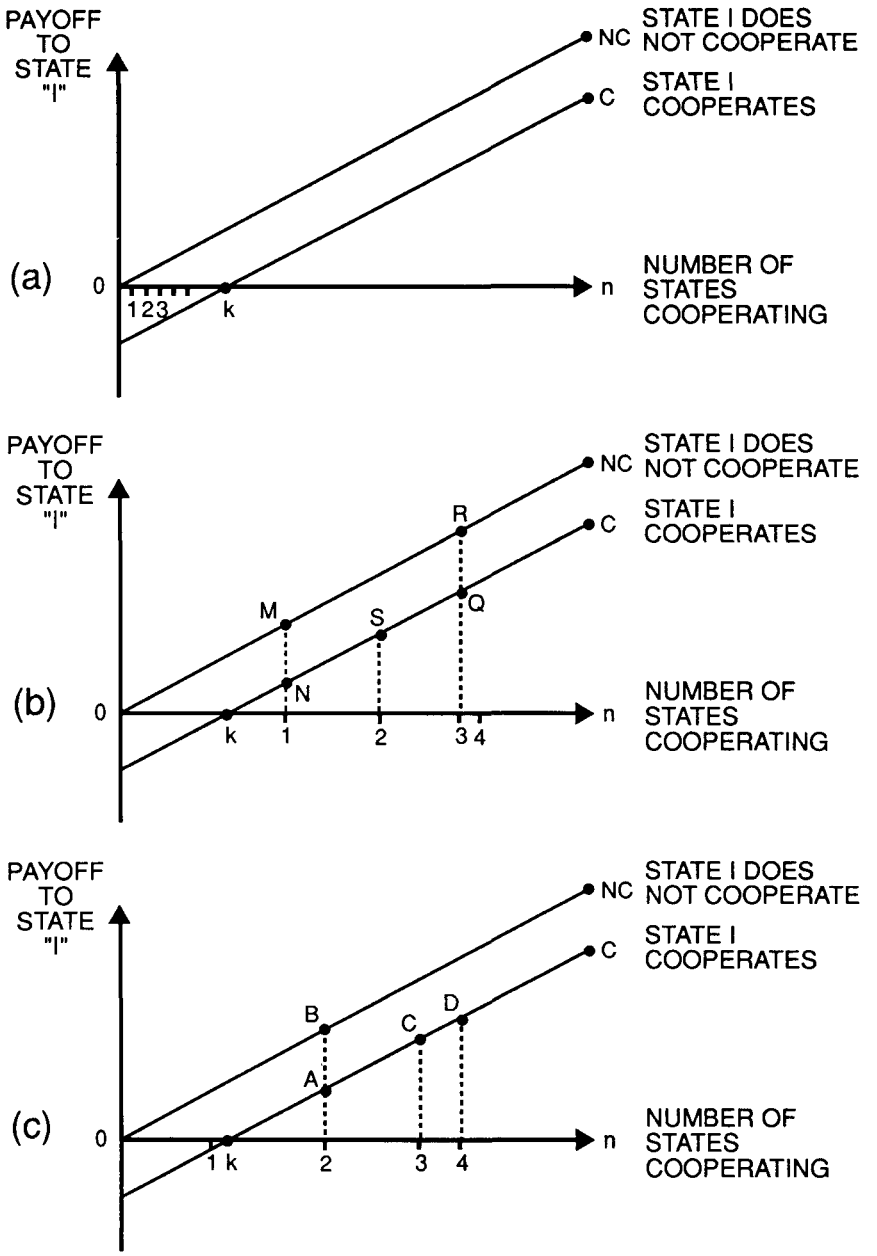

FIGURE 1
"SCHELLING" REPRESENTATION AND *k*-GROUPS

Source: Duncan Snidal, "The Limits of Hegemonic Stability Theory," *International Organization* 39:4 (Autumn 1985), 601. Permission granted by The MIT Press.

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mulation also does not show that two smaller states will cooperate to provide the good.

In more general terms, the Schelling-Snidal model indicates that it is always in the interest of a potential cooperator to defect once *one* player has cooperated.[10] Snidal does not thereby conclude that cooperation is pointless, but he must rest his case on continuing strategic interaction and bargaining among players, not on rational or Prisoners' Dilemma incentives.

Arthur Stein illuminates precisely this situation. He points out correctly that hegemons which open their markets without bargaining for openness on the part of their competitors have lost their leverage and may suffer as a result: "A hegemon cannot alone bring about an open trading order. It can unilaterally reduce its own tariffs, but this does not create an international trading order of lower tariffs."[11] Anticipating Snidal, Stein notes that strategic bargaining is necessary to achieve this result.

John Conybeare opts for even more nationalistic policies to serve hegemonic interests by maintaining that a hegemonic leader should impose an optimum tariff. Far from creating public goods, it must extract one-sided benefits from others. In Conybeare's view, smaller countries will not retaliate against a leader's tariffs because their demand for imports from the big country is inelastic, while the latter's demand for their imports is elastic. The result is that the small country, a "price taker," can only lower its national income by imposing a tariff on goods from the hegemonic leader.[12] Conybeare thus disputes the view that a leader has any interest in creating public goods for others to enjoy. He also doubts whether the leader requires a stable system in order to prosper. He notes that a hegemonic leader "is like a large animal in a state of nature; it should do better than any other entity under conditions of anarchic instability. . . . Even if the hegemon derives some benefits from stability, it will gain more freedom to prey upon smaller countries."[13] Conybeare, however, does not fully consider the loss a leader will suffer if the system on which it depends collapses.

The general conclusion to be drawn from these three approaches is that a country that is lacking in or uncertain of strategic cooperation should either not undertake leadership (public goods) responsibilities, or

[10] Howard Raiffa quite rightly refers to such cooperative behavior against self-interest as "noble." See Raiffa, *The Art and Science of Negotiation* (Cambridge: The Belknap Press of Harvard University Press, 1985).

[11] Stein (fn. 2), 358.

[12] See the discussion in R. E. Caves and R. W. Jones, *World Trade and Payments*, 2nd ed. (Boston: Little, Brown, 1977), 179.

[13] Conybeare (fn. 2, 1988), 67-68.

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should become a "predatory" hegemon. Despite Kindleberger's theory, in a static game-theoretic format the interest of large powers is to play "defect," not "cooperate."[14] It therefore does not follow that rationally calculating states will join together to create public goods, or that the leading state will necessarily strive to offer them on its own.

III. Actions of the Leader

A paradox emerges, however, when one recalls that the actual behavior of past hegemonic leaders has been different from that predicted by game theory. This phenomenon could, of course, be explained on the basis of strategic bargaining to improve payoffs for the leader and to assure openness on all sides. Snidal and Stein lay great stress on this means of facilitating cooperation, and perhaps avoiding decline—gaining absolute benefits without losing relative ones. Historically, however, such strategic bargaining has rarely taken place. In the seventeenth century, Holland did not bargain effectively with England, and yet did not close its markets despite the discrimination it suffered under the latter's Navigation Acts. Great Britain did not bargain with Germany or France to open continental markets after 1860, and generally remained on a free-trade standard until 1931. The United States allowed—indeed, even encouraged—considerable European and Japanese discrimination against itself in the period immediately following World War II. Moreover, the U.S. did not greatly curtail its markets in the 1970s and 1980s, when importation of its agricultural and industrial products was limited by Europe and Japan. In all three cases, the result was that the leader declined rapidly under the burden of maintaining the system.[15]

The fact is that the old hegemonic leader greatly assisted the rise of the new. Dutch capital largely financed British commercial and industrial growth at the end of the seventeenth and the beginning of the eighteenth century. Similarly, British investment provided an essential stimulus to the growth of the United States both before and after the Civil War. In the latter part of the nineteenth century, the growing British market—the dominant consumer market of the time—helped spur both German and American industrial development. In pursuit of a perhaps

[14] In other words, Kindleberger's combination of Stag Hunt and Prisoners' Dilemma does not generally describe the leader's incentives.

[15] See Gilpin (fn. 1, 1987), at 5 and 340; also Gilpin (fn. 1, 1981). The situation depicted in the U.S. case, however, is changing. With the passage of the Omnibus Trade Act of 1988, the United States is responding to the tariffs of other states and seeking to negotiate them downward. One should also recognize that "hegemonic burdens" were by no means the only cause of decline. In the case of Britain, decline began long before the military burdens began to accumulate.

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unwitting policy of helping others, the British actually ran a deficit in their balance of trade for the entire period from 1822 to 1913.[16] The United States provided not only a great deal of economic aid to Japan in the aftermath of the war, but also sustained the latter's growth through offshore procurement of Japanese goods during and after the Korean War. In so doing, it rehabilitated the Japanese automobile industry. Finally, the U.S. offered a crucial market in the 1970s and 1980s, when the rest of the world could not absorb the surging output of Japanese factories.

The paradox is rendered more acute when one recalls that the decaying hegemonic leaders—Holland, England, and the United States—were well aware of what was happening to them.[17] Charles Wilson explains that the Dutch knew they were in a decline and were resolved to contain it.[18] In August 1751, William IV placed certain "propositions" before the States General. He recognized that Amsterdam was losing commerce to Hamburg, that French and English ships were supplanting the Dutch-borne trade, and that the duties on Holland's commerce were higher than those on the goods of other countries. The proposed remedy was to make the entire Dutch Republic a "free port" for raw materials and goods that were to be finished and then transshipped, but to protect it against imported manufactured goods. These were forward-looking proposals, yet nothing was done to implement them.

Great Britain was equally prescient about its future. Joseph Chamberlain depicted "a weary Titan [staggering] under the too vast orb of its fate."[19] And England's naval minister warned that "the United Kingdom by itself will not be strong enough to hold its proper place alongside of the U.S. or Russia, and probably not Germany. We shall be thrust aside by sheer weight."[20] There was a large, but not dominant, contingent in British politics in favor of tariff reform. At the same time, the British geographer Halford Mackinder was arguing that land power and railways were superior to sea power.[21] But Britain's recognition of its plight did not evoke a resolute national response.

[16] Brian R. Mitchell and Phyllis Deane, *Abstract of British Historical Statistics* (Cambridge: Cambridge University Press, 1971). British accounts were in overall surplus during this period, however, because of the returns from invisibles—shipping, insurance, financial services, and income on foreign investments.

[17] The literature on this point is extensive, but see the citations below.

[18] Charles Wilson, *Economic History and the Historian: Collected Essays* (London: Weidenfeld & Nicolson, 1969), 40-41.

[19] Paul Kennedy, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500-2000* (New York: Random House, 1987); also Aaron Friedberg, *The Weary Titan: Britain and the Experience of Relative Decline, 1895-1905* (Princeton: Princeton University Press, 1988), esp. chap. 2.

[20] Quoted in Kennedy (fn. 19), 229.

[21] Mackinder, "The Geographical Pivot of History," *Geographical Journal* 23 (1904).

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The same is true of contemporary America. The literature and statistics depicting the growing relative weakness of the United States are well known, and yet there seems to be little attempt to tighten belts, reduce consumption and debt, and substantially increase investment and exports.[22] Savings ratios have remained far lower than those of Europe, to say nothing of Japan. The volumes by Kennedy and Prestowitz evincing an inadequate national, governmental, business, and consumer strategy amply attest to the meagerness of Washington's efforts to redress its position.[23] Indeed, Gilpin's most recent book, *The Political Economy of International Relations*, offers the paradox in its extreme form: hegemonic leadership is necessary to maintain the system and initially appears to benefit the leader, at least in political and military terms. But the exertions of that leadership inevitably cause hegemonic decline. Overall, therefore, despite some potential short-term gains during the early period of its leadership, the hegemon is bound to lose (relatively speaking).[24]

There is not much evidence of social learning from history to remedy the defect. Social learning has taken place with regard to the causes of war, the prevention of depressions, and the deterrence of opponents. In

[22] The amount of literature and debate on the "decline issue" is now going off the charts, but see particularly Gilpin (fn. 2, 1987); Kennedy (fn. 19); Samuel P. Huntington, "The U.S.—Decline or Renewal?" *Foreign Affairs* 67 (Winter 1988/89), 76-96; Joseph S. Nye, Jr., "Understanding U.S. Strength," *Foreign Policy*, No. 72 (Fall 1988), 105-29; W. W. Rostow, "Beware of Historians Bearing False Analogies," *Foreign Affairs* 66 (Spring 1988), 863-68.

[23] See, inter alia, Kennedy (fn. 19); Clyde V. Prestowitz, Jr., *Trading Places: How We Allowed Japan to Take the Lead* (New York: Basic Books, 1988); Charles Doran, "Systems in Crisis," mimeo (Baltimore: Johns Hopkins University, 1989); Lester Thurow, *The Zero Sum Solution: Building a World-Class American Economy* (New York: Simon & Schuster, 1985); Gilpin (fn. 1, 1987); Stephen S. Cohen and John Zysman, *Manufacturing Matters: The Myth of the Post-Industrial Society* (New York: Basic Books, 1987); Bruce Scott and George C. Lodge, eds., *U.S. Competitiveness in the World Economy* (Boston: Harvard Business School Press, 1985); and a host of other writings.

[24] See Richard Rosecrance, "Hoist with Our Own Hegemony," *New York Times Book Review*, August 16, 1987, p. 22; also Stein (fn. 2). The absolute gains were still striking. P. T. Ellsworth records British 19th-century economic progress in the following terms:

> Thus although the export of cotton thread and yarn was about the same in 1909 as in 1870 in physical volume, that of piece goods nearly doubled. Britain's share of the world trade in cotton manufactures, which she had dominated before 1870, was still 57 per cent in 1913. As for machinery, although in 1880-84 the United Kingdom had contributed 64 per cent of the exports of the four leading countries, and this had shrunk to 34 per cent in 1909-13, yet the absolute value of these exports had risen from £11.5 million to £32, or nearly threefold. Again, British shipbuilders had constructed four-fifths of the world's gross tonnage in the early nineties, with an annual output of a million tons; in 1910-14 their share was still three-fifths, and their annual production considerably larger, at 1.66 million tons. In general, though the United Kingdom had suffered a relative decline in the world position of her leading industries, coal, iron and steel and machinery, textiles and shipbuilding, as well as in her exports, and even an absolute decline in some exports, nonetheless all industries had increased their output and most their exports. Ellsworth, *The International Economy: Its Structure and Operation* (New York: Macmillan, 1950), 421-22.

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this signal instance, however, hegemonic leaders simply appear to repeat the follies of their predecessors.

IV. Japan and the Problem of Systemic Leadership

Many studies attest to the apparent selfishness of Japanese behavior in the international political economy. Clyde Prestowitz explains that Japan first obtained primacy in old industries: textiles, steel, and automobiles. Then it embarked on a successful quest for preeminence in electronics and semiconductors. Now it is seeking dominance in services: finance, banking, and information. In no case did Japanese bureaucrats permit leading American industries in any technological field to achieve and maintain an important share of the market in Japan. The United States, on the other hand, allowed Japan to invest its money freely, to obtain U.S. licenses for critical patents, and to sell its products. Tokyo was not hampered by a closed American distribution network or a minatory safety inspection system. There were no limits on buying either a large percentage share or outright ownership of American firms. Prestowitz concludes that Japan's objective is to render the once-proud United States into a vassal—an economic colony.[25] Bruce Scott writes of Japan:

> The emergence of industries characterized by rapid growth, technical change, and declining costs opens the possibility of an industrial strategy for a nation as well as for a firm. A *firm* can accelerate its run down the experience curve through increasing its market share and hence its volume relative to competitors. Aggressive if not predatory pricing becomes a way to trade lower short-run earnings for a stronger, presumably more profitable long-run position. A firm can also accelerate its run down the curve by acquisition of the latest technology, either through R & D or through licensing from a competitor. A *nation* can build upon these ideas by protecting the home market ... by helping provide low-cost, long-term finance to promote capital investment, and by a variety of measures to maintain or promote the mobility of resources—both capital and labor.[26]

In the process, a nation can greatly and artifically restrict the import of manufactured goods.

A variety of other writers, from Chalmers Johnson to Ronald Morse, have testified to the reality of the Japanese challenge—a challenge not simply on the economic level, but one that is politically sustained by virtual exclusion of competing imports in the high-technology sector.[27] Under these circumstances, it is not surprising that many observers have

[25] Prestowitz (fn. 23), 308-311.
[26] Scott and Lodge (fn. 23), 98-99; emphasis in original.
[27] See Ronald Morse, "Japan's Drive to Pre-Eminence," *Foreign Policy*, No. 69 (Winter

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concluded that Japan cannot act as a traditional economic power, only as a predatory one. It will eat up competing industries until Japan's world market share is dominant in the entire range of advanced industries and technologies. Japan will attain this goal not only by means of technological advances, but also by rigorous practices of domestic exclusion of competing imports.

In view of this record of unblemished self-seeking, it is difficult to understand some aspects of contemporary Japanese behavior that place considerable emphasis upon international commercial and financial stability. It is too soon to be completely sure, but some of Japan's new policies appear to underscore the degree to which Japan has (perhaps perforce) chosen *not* to be a predatory hegemonic leader. This behavior may well carry over into the period in which Japan moves fully toward economic leadership status.

If Japan actually acted as the critics suggest it does (as a unilateral and relative maximizer), it would emphasize one of two different economic strategies. It would seek to make additional gains through an export strategy or through a strategy of domestic consumption and fiscal stimulus. Rigorously carried out, either of these would be consistent with a predatory economic position.

A. Export Strategy

Following an export strategy, Japan could refuse to sanction devaluation of the dollar and the associated upward revaluation of the yen. It could compensate for American currency depreciation with its own forced devaluation of the yen through massive sales of local currency on world markets. This policy would benefit Japanese exports and cancel the growing competitiveness of U.S. exports.

B. Domestic Stimulus Strategy

An alternative strategy would be for Japan to accept upward revaluation of the yen despite the difficulties this would cause for an economic growth strategy based on exports. Before 1980, in pursuit of this strategy,

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1987-88), 3-21; Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-71* (Stanford, CA: Stanford University Press, 1982), "The Japanese Political Economy: A Crisis in Theory," *Ethics and International Affairs* 2 (1988), 79-97, and *The End of American Hegemony and the Future of Japanese-American Relations* (La Jolla: University of California Press, San Diego, 1988); Roy Hofheinz, Jr., and Kent E. Calder, *The Eastasia Edge* (New York: Basic Books, 1982); Kent E. Calder, "Japanese Foreign Economic Policy formation: Explaining the Reactive State," *World Politics* 40 (July 1988), 517-41. The best-known book in this genre is probably Ezra F. Vogel, *Japan as Number 1: Lessons for America* (New York: Harper Colophon Books, 1979).

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Japan compensated for its savings rate by a high government deficit that reduced the export surplus.[28] Today, such a strategy would mean that Japan's further economic progress would depend on increases in consumption, both governmental and personal. Japanese funds invested overseas would be brought home. Restrictions on imports would be maintained.

In theory, either of these two strategies could sustain Japan's growth; each has been used in the past by other leading states. By and large, the British developed through a strategy of export-led growth. The United States became an industrial power as a result of the westward movement and a strategy of stimulating development through the territorial acquisitions of "manifest destiny" and associated increases in consumption.

According to the first (export) strategy, Japan would continue to emphasize foreign trade, placing overseas investments only when threatened with tariffs. At home, it would continue to stress high savings and limits on consumption, freeing its production for the export sector. The funds held overseas (the result of Japanese exports for which the receiving country could not initially pay with its own exports) would be in countries that offer the highest return to Japanese investors and that do not present a foreign-exchange risk. In following this strategy, Japan certainly would not increase its government or military spending, both of which stimulate consumption and preempt products and materials from the high-technology and metals-using industries.

The second strategy (domestic stimulus) suggests the opposite. The savings rate would be brought down and new government spending projects initiated: in sewers, land, water, public housing, transport routes, and new welfare systems. No funds would be sent overseas, certainly not to the less developed countries. Defense expenditures would be increased to prop up and encourage new domestic industries. Restrictions on foreign imports would be continued and increased in order to give Japanese industry maximum stimulus. Domestic taxes would be decreased.

The formulation of these two extreme economic growth strategies (each consistent with a selfish—indeed predatory—position), however, leads us to see how different current and emerging Japanese policies are. Japan's current economic actions are not consistent with either strategy. Their ambivalent character is reflective not of a predatory strategy, but of an emerging orientation that considers the maintenance of the international trading and financial system (in other words, the provision and

[28] See, in particular, Edward Lincoln, *Japan: Facing Economic Maturity* (Washington, DC: Brookings Institution, 1988), 212-30.

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maintenance of public goods) to be important, along with any sectarian advantage to Japan. For example:

(1) Japan has sanctioned and accepted a fall in the value of the U.S. dollar from 260 yen to 120 yen (nearly 54 percent). It did not seek to engage in competitive devaluation to retain market share throughout the world, though it might have off-loaded yen at a discount. This dollar devaluation caused great discomfort to Japanese exporters.[29] In 1987, growth in the foreign trade sector was negative. In 1988, the decline in exports subtracted 1.9 percentage points from the Japanese growth rate. At a minimum, this response in itself would seem to suggest that Japan is discounting its longer-term export potential and questioning exclusive reliance on an export strategy of economic growth.

(2) Unlike any other power challenging a declining hegemon, Japan has actually plowed back a large proportion of its earnings into the U.S. money market and into direct investment in American plant and equipment. In so doing, it has stimulated American productivity and innovation considerably beyond the levels they would have attained otherwise. It has done so even when losses on these investments from the decline in the value of the dollar have been quite large. By adding to the pool of U.S. savings and investment, Japan is in effect assisting its largest competitor. In this context, it is well to recall that Britain did not reinvest in the Dutch economy at the end of the seventeenth and beginning of the eighteenth century, despite its growing surplus in the Dutch market. Both Germany and the United States, like Japan today, earned foreign trade surpluses in the leading state's market in the late nineteenth and early twentieth centuries. While they held some of their reserves in the London money market, they did not reinvest in the British economy and, as the statistics show, generally declined to invest abroad. Japan's long-term capital investment abroad, however, has been substantial.[30]

[29] No one could assert that Japan was enthusiastic about the so-called *endaka* (high yen) problem. As Chalmers Johnson put it, "In a sense Japan had no choice but to go along with the Plaza Accord because for the previous five years it had been excusing its own huge surplusses by saying that they were caused by the overvalued dollar." (Letter to the authors, August 26, 1988.) Unless this argument is taken in a broad negotiating context in which Japan responds to the arguments and pressures of other states, however, such agreement was not in Japan's interest.

[30] SHARE OF GNP DEVOTED TO CAPITAL FORMATION AND CAPITAL EXPORTS (PERCENT)

	Domestic Capital Formation	*Capital Exports*
United Kingdom, 1895-1914	9.4	3.9
U.S.A., 1889-1913	22.1	0.5
Germany, 1891-1913	22.7	1.0
Japan, 1986	22.8	5.3

Source: The figures for the U.K., the U.S., and Germany are calculated from Simon Kuznets, "Quantitative Aspects of the Economic Growth of Nations: VI. Long-Term Trends in Capital Formation Proportions," *Economic Development and Cultural Change* 9 Part II (July 1961), 10-11; Japanese figures are calculated from data given in Lincoln (fn. 28), 39, 76, 228.

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(3) Japan's current policy is a refractory amalgam of consumptionist and export-led growth strategies. This suggests that Japan is moving away from an export strategy, but has not yet embraced the requirements for a domestic alternative. Such a move would entail steady increases in consumption and government spending together with a lower tax burden. It would also suggest a continuing restriction on imports so that the home market could be reserved for Japanese domestic producers of food and manufactured goods. Finally, such a strategy would suggest large-scale repatriation of Japanese capital from abroad and its reinvestment at home. Certainly, a Japanese relative maximizer would not slow down domestic economic growth in order to stimulate (through its investment of funds overseas) the economies of competitors. Yet this is precisely what Japan is in the process of doing. The former Minister for Economic Planning commented in 1988:

> Japan's institutional investors have experienced heavy losses due to the recent dollar depreciation and thus are sensitive to future trends. If they felt unsure of the dollar's future they might want to diversify their portfolio into assets denominated in domestic yen or other countries' currencies.[31]

When Japanese pension funds and insurance companies left the U.S. market in the first quarter of 1988, the Japanese central bank intervened to support the dollar and offset the loss. In late 1988 and 1989, pension funds came back to the U.S. market, with the objective of long-term returns. With the approval of the government, they have accepted a considerable exchange risk in the short term. If these Japanese investments had not occurred, U.S. interest rates would have soared, perhaps (as in 1981) leading to a recession. Assuming a growth strategy based increasingly on domestic demand, however, Japanese leaders have acknowledged and fostered a transfer that takes place despite its long-term interests to return investment funds to Japan.

(4) Japan is embarking on a program of large-scale foreign aid to the Third World, estimated to total $43 billion. This program will not be tied completely to expenditures in the Japanese market. It will also be making major contributions (about $4.5 billion) to the Brady debt relief plan, even though few Japanese banks are involved in loans to Latin American debtors. Japan's leaders believe that these are some of the things it can do (without assuming greater military obligations) to take pressure off the United States.

(5) Japanese military spending now exceeds 1 percent of the country's GNP. If it were measured the same way as European defense spending, it would be closer to 2 percent. In absolute terms, it constitutes the third-highest military budget in the world, nearly $40 billion. It will increase further.

(6) Japanese joint ventures with foreign companies—for example, Maz-

[31] Tetsuo Kondo (member of the Diet and former Minister of State for Economic Planning), "Japan's New Financial Strategy and the International Debt Problem," lecture at The Wilson Center of the Smithsonian Institution, Washington, DC (May 3, 1988).

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da's with Ford, Toyota's with General Motors—have not provided new technological innovations or managerial insights to Japanese firms. Instead, the beneficiaries—in management skills and know-how—were the American companies.

(7) It remains unclear whether Japan will eventually open its market to the agricultural and industrial goods of other states. Nonetheless, influential Japanese decision makers are beginning to talk of Japan as a market of last resort for indebted countries like the United States and some Latin American nations, suggesting that changes may be in progress.[32]

(8) Japanese leaders are now urging domestic consumption and seeking to restrain savings. The work week is being cut back, and Japanese employees are being encouraged to take vacations and discouraged from working overtime. Recent tax changes apply a 3-percent tax to reduce the government deficit, while providing a net fiscal stimulus of 6 trillion yen ($48 billion). Rather than restricting consumption and emphasizing saving, Japanese leaders have in fact stimulated consumer spending. In 1987, the domestic economy grew by 4.9 percent, while exports diminished the total by .7 percent. In 1988, imports rose much more rapidly than exports.

These points underscore the lack of a consistent strategy of self-interested maximization. Even if we assume that Japan is in the process of shifting from export-led growth to consumption, its policies remain incoherent. Because of the country's great industrial capacity, leaders recognize that domestic growth alone will not absorb the entire output of Japanese factories. Thus, some combination of the two approaches is perhaps necessary; but they do not fit together easily. Nor do they jibe with what has been a de facto policy of supporting the U.S. bond and money market. According to the first strategy, Japan should maintain a high savings rate; according to the second, it should increase consumption. For the export strategy, a relatively cheap yen is required, but actual rates are extraordinarily high and may go higher. For export-led growth, one wants fiscal restraint and low prices; for consumption, an increase in wages and prices and fiscal stimulus. Even more important, from neither point of view does one want policies that build up a competitor or provide markets for a rival.

It appears difficult, in short, to reconcile Japanese policies with *either* strategy unless other motives are taken into consideration.

V. Why Have Leaders Behaved Benevolently?

We are now faced with a puzzle. The behavior of hegemonic leaders, probably including Japan, has been more beneficent than optimal strat-

[32] *Ibid.*, 3.

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egy would suggest. Why? One possible reason is that hegemons start out being tough, but then are led irrevocably toward greater cooperation as they and their rivals pass through different stages of international competition. At least three different sets of circumstances need to be distinguished from one another. The first is the situation of a relatively large, rising hegemonic leader, with no significant industrial competitors. The second is the case of a leader who is rising in absolute terms, but declining in relative ones, faced with growing medium-sized competitors. And the third is the case of an almost static hegemon, confronting a single rising challenger who is already taking on the functions of a creditor.

As Table 1 shows, the first case validates Conybeare's argument and suggests a predatory strategy for the unopposed hegemonic leader. In game-theoretic terms, this preclusive or preemptive hegemon plays Defect and receives Cooperation in return.[33] It applies an optimum tariff, but does not face retaliation. The hegemon provides no public goods; free-trade benefits, if any, stem from the actions of small, price-taking states.

In the second case, a leader who is still rising in absolute terms is confronted with several powerful though medium-sized opponents. It can no longer apply the optimum tariff because it would face retaliation. Instead, it offers to lower its tariffs, hoping to initiate reciprocity. Thus, there is Tit-for-Tat situation, but the hegemon initiates and plays Cooperate. It offers public goods. In this stage, the hegemonic leader is the world's greatest creditor nation and must allow domestic free trade so that others can export to it and discharge their debts.

In the third case, the leader has ceased rising (certainly relatively, and to some degree even absolutely). A rising challenger has taken on some hegemonic functions: it is already a leading creditor. Under these circumstances, the static leader ceases to offer public goods unilaterally and threatens retaliation in order to open up the market of the rising challenger. The leader becomes a potential free rider, and the rising challenger must take on some of the public-goods responsibilities of maintaining the system. Effectively, the declining leader plays Defect and elicits Cooperation from this challenging partner.

Table 1 displays the theoretical incentives of dominant, powerful, and declining leaders and the likely responses of their rivals. The key point here is that relatively tough and predatory hegemonic powers get caught

[33] In this instance, the game cannot be a simple one of Prisoners' Dilemma, but instead resembles the Stag Hunt versus Prisoners' Dilemma game that underlay Kindleberger's formulation. However, it is the small state that automatically cooperates and the optimum-tariff hegemon that defects and obtains free-rider benefits.

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Stage	*Historical Examples*		*Theory Confirmed/Denied*
A. L_1 Leader rising absolutely and relatively Policy: Optimum tariff	Britain, 1820s–40s High tariff	U.S., 1945–50 Lower tariff	L_1: Britain confirmed L_1: U.S. denied
R_1 Small price-taking rivals Policy: Free trade	*Zollverein*, 1830s Low tariff U.S., 1833–Civil War Tariff declining	Continental states/ Japan, late 1940s, 1950s High tariffs, discrimination	R_1: *Zollverein* confirmed R_1: U.S. post-1861 confirmed R_1: Continental states/ Japan denied
B. L_2 Leader rising absolutely but declining relatively Policy: Free trade or reciprocal free trade and capital exports	Britain, 1850–1913 Free trade, capital exports	U.S., 1950–1970 Low tariffs	L_2: Britain confirmed L_2: U.S. confirmed
R_2 Large, price-influencing rivals Policy: Protection	Continental states, 1880s–1914 High tariffs U.S., 1861–1913 High tariffs	Continental states/ Japan, 1950–1970 High tariffs	R_2: Continental states/ Japan confirmed
C. L_3 Leader static, absolutely large; relative decline Policy: Protection	Britain, 1913 No protection until 1931	U.S., 1970s–1980s Move to protection and exchange depreciation	L_3: Britain denied L_3: U.S. confirmed
R_3 Single large rival, capital exporter Policy: Moves to free trade	U.S., 1922–34 High tariffs, capital exports	Japan, 1980s Move to greater openness, exchange depreciation	R_3: U.S. denied R_3: Japan confirmed

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in maintaining the system, and have to become cooperative and even benevolent in the second stage. They can return to toughness in the third stage.

A. The Rising Leader Facing Small Rivals[34]

The rising or dominant leader (L_1) can impose Conybeare's optimum tariff. Small rivals (R_1) cannot influence the market price and should be forced to accept the leader's restrictions. There are at least two cases of such dominance:

(1) The first is found in the industrial position of Great Britain up to the mid-1840s. There were no effective competitors in this period; Britain, "the first industrial nation," was in effect the *only* industrial nation. Britain had high tariffs and might have maintained them, as per both Conybeare and Stein, for a decade or so longer. Britain's rivals (R_1) should have reduced their tariffs, and to some degree they did. The *Zollverein* tariff was low and the American tariff declined between 1833 and 1861.

(2) The second case of a dominant leader is that of the United States in the immediate aftermath of World War II. Because of the disorganization of European and Asian production, the U.S. for a brief time had no competitors. There was a huge dollar shortage and America's exports could dominate any market. Even more than Britain in the second quarter of the nineteenth century, however, the United States was a heavy exporter of capital and a provider of loans and grants. Before 1846, Britain had not facilitated the repayment of its loans to foreigners by lowering tariffs. The United States did so in the immediate post-World War II period. American tariffs were reduced to help others, with the U.S. often receiving little in return. Weakened rivals, facing no hegemonic pressure, imposed tariffs and restrictions on American goods. The dollar was in effect designated a scarce currency, and Europe and Japan discriminated against it at least through 1958.

In sum, while Britain applied an optimum tariff, the United States did not. In the first case, some continental states continued high tariffs against the British, but the Germans and the United States did not. In

[34] The case of the large hegemonic power confronting small rivals may never occur in the future. In the two cases we delineate below (Britain before the mid-1840s, and the United States in 1945-1947), there were no true industrial competitors. Britain was initially the only industrial nation, and at the end of World War II, all of America's competitors had been put out of business temporarily. Future hegemons will rise to power in a context already well populated with strong industrial competitors. The situation depicted by John Conybeare may therefore not recur.

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the second case, the Europeans and the Japanese put up tariffs against a nonpredatory United States.

B. The Powerful Leader Confronting Rising Middle Powers

The second example is that of the powerful but no longer dominant hegemonic leader (L_2). Confronting several rising rivals, the leader can no longer impose and benefit from an optimum tariff. Tariffs will cause retaliation on the part of major market participants (R_2) that are now capable of influencing the price. At this stage, the powerful leader is a large net creditor, and it should be the first to reduce tariffs so as to allow others to repay their debts and to finance the investments they have received from it.

(1) With the repeal of the Corn Laws and the Navigation Acts, Great Britain moved into the second stage. For most of the period up to the First World War, the powerful but no longer dominant hegemonic leader can be characterized as absolutely expanding but relatively declining. Initiating a reduction in tariffs, Britain had to cope with a host of continental and American free riders committed to protection. Relying on their tariffs, both the continental states and the U.S. moved to an export surplus vis-à-vis Britain. The first industrial nation, however, did not retaliate.

(2) Between the late 1950s and 1980, the United States asserted a powerful but no longer dominant economic influence over the rest of the system. America remained open to permit others to sell in its market and to repay their loans. Continental and Japanese restrictions thus could remain relatively high.

C. The Declining Leader Facing a Challening Rival

In the third stage, the hegemonic leader (L_3) has reached a nearly static stage in absolute power; its relative decline is already well advanced. Its standard of living may even be declining in real terms (at least as reflected in imports) if its currency has been considerably devalued. At this stage, a single major rival (R_3) has grown up to challenge the hegemon. This rival is not only successful; it has managed to take away major markets from the erstwhile leader and also to become a major creditor nation.[35] Because the declining leader no longer has to help finance the repayments on debt to the former degree, it can consider imposing tariffs and other restrictions on its trade. Section 301 of the 1988 Trade Act,

[35] For this reason, as we shall see below, an incipient hegemonic power may no longer be able to act like a predatory hegemon.

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often called "Super 301," becomes possible at this stage. For precisely opposite reasons, the single challenger cannot impose tariffs and must open up its economy in order to allow its debtors to repay their loans.

(1) Britain reached the stage of declining hegemon after World War I, but it did not apply any significant tariffs until 1931. In fact, England returned to the prewar parity of the pound sterling in 1926, thereby facilitating the trade of rival states. The major economic and financial challenger, however (contrary to our prediction), did not open its markets despite its now preeminent creditor status. Between 1922 and 1934, the United States adopted a high-tariff, restrictionist posture in world trade.

(2) In the second case, the United States reached the stage of a declining hegemon with a static real standard of living in the late 1980s. The task of being lender of last resort in the system had by now passed to Japan, America's leading challenger (R_3). The U.S. had to devalue its currency to try to solve its balance-of-payments deficit, and this meant that imports continually became more expensive. Japan meanwhile reduced tariffs, accepted a more than 50 percent appreciation of the yen, and increased its consumption, stimulating imports. The United States moved gradually in the direction of protection, threatening more restrictions if Japan did not fully open up its economy, and listing Japan for violations of free trade. America could afford to adopt an occasional stance as free rider in its own hegemonic system because it no longer bore the primary burden of being lender of last resort. Under these circumstances, the U.S. played Defect to Japan's Cooperate. Japan is more cooperative as the single challenging rival in the 1980s than the United States was in the 1920s and early 1930s.

Not every historical outcome is in accordance with the theory of hegemonic stages. Some of the Europeans did not act as price takers between the 1820s and 1840s. Nor did they and Japan do so in response to strong U.S. hegemony in the late 1940s and early 1950s. As dominant leaders, Britain imposed an optimum tariff; the United States did not.

In the second stage, the parties acted as expected; in the third, declining Britain was more benevolent and the rising United States less benevolent than might have been anticipated. In the 1950s, Washington made up for its sins of predation in the 1920s and early 1930s with an even more benevolent policy than might have been predicted. Otherwise, the forecasts of the theory of stages are broadly fulfilled.

It is worth underscoring the point, however, that with the exception of the prehegemonic U.S. from 1922 to 1934, hegemonic states tend to err on the side of maintaining the system. They may not initially wish to do so, but, once they have an export surplus and have become leading

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creditor powers, they face the alternative of allowing others to pay back the loans or of forcing default. Alone among such powers, the United states compelled others to renege on their loans in 1932. There is no evidence that Japan will do so in the years ahead.

This may be partly because the declining hegemonic leader, the United States, is using its leverage to get Japan to open up its economy. By contrast, the British did not seek to force a recalcitrant U.S. to do so in the late 1920s and early 1930s. In the second phase of our theory of stages of hegemonic leadership, the leader begins to identify its own welfare with the continued functioning of the international economic and financial system.

Why is this? The leader is on top; in all likelihood, it is the world's greatest creditor. If the trade regime closes down and everyone defaults, the system collapses. This means a new spike in interest rates in the leader-state itself, and the transmission of depression (through cuts in demand) from one country to another. It is possible that the abrupt curtailment of the money supply in the leading state will result in an even greater cut in national income there than occurs elsewhere. The United States suffered greater unemployment in the 1930s than any other leading industrial country.[36] (See Table 2.)

TABLE 2
UNEMPLOYMENT 1929–1938
(PERCENTAGES)

	France	*Britain*	*Germany*	*United States*	*Japan*
1929	1.0	8.0	13.1	3.2	n.a.
1930	n.a.	n.a.	n.a.	n.a.	5.3
1932	15.4	17.0	30.1	23.6	6.8
1934	13.8	12.9	14.9	21.7	5.0
1936	10.4	10.2	8.3	16.9	4.3
1938	7.8	10.1	2.1	19.0	3.0

Source: Ekkart Zimmermann, "Unemployment in the 1930s: Neo-Mercantilism, Markets and Politics," paper presented to the Workshop on Political Aspects of Employment and Unemployment in Advanced Countries (University of Amsterdam, April 1987).

The United States was "king of the hill" in the 1930s, but it let the hill crumble from under it and suffered the consequences. Although the U.S. was not quite hegemonic in the 1920s and early 1930s, the example is

[36] This situation was the diametric opposite of that usually assumed in the early post-World War II period when, if the United States sneezed, Europe caught pneumonia.

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there for all to see: a leader may decline as a consequence of its system maintenance exertions, but once it has reached a certain stage, its decline will be more rapid and sure if it practices system destruction. This does not mean that it is, overall, beneficial to play a hegemonic leadership role. Once a state is engaged in such a role, however, attempts to plunder the system are likely to be counterproductive. If the economic order shatters, the hegemonic leader may suffer more than others.

VI. Strategic Rationality

The hegemon also has good bargaining reasons not to risk its position in seeking to quash competitors. As rivals approach the point where they can help with system maintenance, the hegemon has a strong interest in demanding contributions from them. Because of its established institutions and assets, the weakened hegemon still has enough leverage to bargain strategically with competitors, in this way prolonging its life as a great power by sharing the burden with others. The United States failed to come to Britain's assistance from 1929 to 33, but contemporary Japan offers an example of a more attentive response. Japan's behavior has changed because the erstwhile hegemonic leader, the United States, has begun to use its negotiating leverage. In order to retain access to the American market in which 39 percent of its exports are sold, Japan has had to modify its strategy. It has sought to avoid the threatened imposition of U.S. tariffs through a policy of direct and portfolio investment in the United States. In response to American political pressure, Japan has started to open its domestic market to admit industrial and agricultural goods from other countries. The process is still glacially slow, but it is taking place. In other words, the role of declining leader is now less unattractive because modern leaders have been able to bargain with others to share the burden. In Duncan Snidal's words, "strategic interaction" has helped to provide for cooperation even though it might not have been present from the beginning in terms of game-theoretic incentives.[37]

As we have seen, the hegemonic leader (and its third-stage rival) are likely to be creditors in the international economic system. Unless they run a deficit in some part of their balance-of-payments accounts, debtor

[37] Has something changed in international politics that allows the United States to bargain strategically with its trading partners though Britain could not? We cannot be sure. But it is perhaps significant that the ideology of free trade was much more entrenched in the United Kingdom at the beginning of the 20th century than it is in the United States today. See Friedberg (fn. 19); Snidal (fn. 5).

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countries will not be able to pay them back. If they keep accumulating surpluses in trade and payments, their customers will sooner or later run out of cash. The "Sharks and Fishes" computer game underscores this result.[38] The objective of the game is ecological balance between fish that live on plankton and sharks that live on fish. If the sharks quickly devour all the fish, they will starve eventually. The United States, which in fact behaved as a predatory rival between 1922 and 1934, found this to be true. Because of the Fordney-McCumber, Smoot-Hawley, and other trade restrictions, the countries with war debts were not allowed to run balance-of-trade surpluses in the American market. Rather, the U.S. insisted on continuing to run a surplus against them, and even devalued its own currency. The result was a European repudiation of debts to the United States. America had to accept major losses. When it became the single hegemonic power after 1947, the U.S. had learned the lesson. It had already won all the marbles in the game and had to give some of them back in the form of the Marshall Plan so that its European customers could continue to buy American products. The same game metaphor applies to Japan today.

If these are some of the major actuating reasons why a hegemon will continue to bear burdens and seek to provide collective goods, they would seem to apply to Japan, the incipient hegemon or condominial associate of the United States. Even a prehegemonic Japan faces these dilemmas. If it presses the U.S. to the wall, Washington will ultimately be forced to default on its obligations. Thus, it is in Japan's interest to allow America to grow, and even to export to Japan, so that it can discharge its debts. As the former Minister for Economic Planning, Tetsuo Kondo, has pointed out, Japan has helped to finance the U.S. public debt and American overspending. In 1986, for example, Japan's financial investment in the United States amounted to $55.9 billion out of a net long-term capital investment of $65.7 billion in foreign countries.[39] When that investment became unprofitable because of the decline in the dollar, intervention by Japan's Central Bank made up the shortfall.[40] The continuing investment in the United States, both direct and portfolio, occurs *despite* Japan's long-term desire to return investment funds to Japan.

The current movement toward domestic as opposed to export growth is related to the same reason. As Kondo has put it:

[38] "Computer Recreations," *Scientific American* 251 (December 1984), 14-24.

[39] Kondo (fn. 31), 5.

[40] Typical Japanese pension funds lost about 24% on their investment in the U.S. money and stock market during 1987.

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> I believe the Japanese economy can contribute actively to improving the U.S. trade balance. It can also mitigate the accumulated debt burden of developing countries and strengthen their export capacity. I also believe that, by boosting domestic demand to the 5% level in the medium term, Japan's economy will be able to absorb the additional supply of exportables created through [export] programs in the United States and in debtor developing countries.[41]

Embracing an even more far-reaching perspective, Yojiro Eguchi, senior economist at the Nomura Research Institute, has described the current and future Japanese role as follows:

> If present trends continue, Japan will doubtless become the world's leading creditor nation within a decade, assuming the position formerly held by Britain and then by the United States. Ten years from now [1984] Japan will have net external assets of $500 billion, a level far in excess of America's foreign holdings at their peak. Both Britain and the United States created and ran international systems with themselves at the top when they were leading creditors. Now it is Japan's turn to come up with an international system suited to itself. . . . If Japan and the United States, facing each other across the Pacific Ocean, can complement each other, the former as a major creditor nation and the latter as a major debtor, the prospect for a broad-based relationship will open up.[42]

Eguchi did not mention, however, that the role of a creditor power includes that of running a trade imbalance.

One should also acknowledge that Japan's transition to financial hegemon is still incomplete. R. Taggart Murphy points out that Japan does not recycle its surpluses (to say the least) as easily as does the United States.[43] The reason is partly that the yen is not a fully international currency or global reserve currency. It piles up in the coffers of corporate treasurers; it is not returned to the investor in the form of dividends, nor is it recycled abroad. The Japanese stock market is not fully open to foreigners; and in any event, the major proportion of stock is not publicly traded. Borrowers are hesitant to borrow in yen for fear of having to pay back at appreciated rates. As a result, the Japanese yen investor has few places to earn returns. In theory, the result of the failure to recycle could be a world depression. Japanese financial leaders, however, are well aware of the danger and, except in one or two notable cases, have intervened to support the currencies of countries in trouble.

[41] Kondo (fn. 31), 11.

[42] Quoted by Kenneth Pyle, "Japan, the World, and the Twenty-first Century," in Takashi Inoguchi and Daniel Okimoto, eds., *The Political Economy of Japan, Vol. 2: The Changing International Context* (Stanford, CA: Stanford University Press, 1988), 485.

[43] See Murphy, "Power without Purpose: The Crisis of Japan's Global Financial Dominance," *Harvard Business Review* 2 (March-April 1989), 71-83.

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VII. Political Development

Another factor is almost certainly beginning to have an influence in Japan as well. All hegemonic leaders have eventually had to let their own people enjoy the benefits of their hard-won economic gains. Political development ultimately accompanies economic development, at least for liberal-democratic societies. There is already evidence in Japan of workers bargaining for greater leisure as well as money. The work week is being shortened and workers are encouraged to take their vacation time. The Recruit-Cosmos scandal, implicating almost the entire Liberal Democratic Party elite, has cast doubt on how much the average Japanese should be expected to sacrifice for a sometimes questionable leadership. The age pattern of the Japanese population also suggests a move to growing consumption and decreased saving in the years ahead.

Greater reliance on consumption and domestic growth does not mean that Japan will abandon its export policy. The Japanese economy cannot be sustained by home demand alone: its industrial capacity is far too large. By stimulating consumption at home to provide a balance for debtors overseas, Japan's leaders create the very problems that hegemonic powers have always sought to avoid. They end up becoming the market of last resort for countries in trouble (including the United States); the consequence is lower savings, higher consumption, lower home investment, and too much investment overseas.[44] Japan is doing now, against its will, many of the same things that have led to hegemonic decline in the past. In fact, the country's relative growth in power, while still increasing, is already doing so at a decreasing rate.[45] There are good reasons for Japan's present behavior: the leading economic power cannot escape the dangers of a possible collapse in the world trading and financial system. Today Japan sits atop the world financial pyramid; it must fall the farthest if the pyramid topples. Since autarky is not a realistic possibility, Japan must bail out the system even though the result is slower growth and excessive consumption. In this way, Tokyo is beginning to help the world, but perhaps unwittingly contributing to Japan's own ultimate decline.

[44] Kent Calder argues: "The growing role of Japan in the international financial system, as the world's largest exporter of capital, has brought about sharply increased prosperity and influence for Japanese financiers domestically; it has also given these financiers an expanded stake in a stable international monetary regime." Calder (fn. 27), 540.

[45] See Doran (fn. 23), and Charles Doran and Wes Parsons, "War and the Cycle of Relative Power," *American Political Science Review* 74 (December 1980), 947-65.

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VIII. Conclusion

We have sought to establish four major points: (1) The literature and the practice of international relations both suggest that hegemonic leaders bearing the full costs of public goods do not benefit thereby.[46] For the leader to extract major benefits, there must be an equitable sharing of the costs. (2) If a nation nonetheless adopts a hegemonic leadership role, benefits may accrue in the predatory stage; but, once the leader has become a creditor power and faces large, somewhat indebted rivals, it must open up and bear some systemic costs. (3) All hegemonic and prehegemonic leaders (except the United States in the 1922–1934 period) have paid these costs. (4) Leading states engage in this somewhat irrational behavior because they adopt a role whose payoffs and characteristic strategies evolve with time (and with the nature of international competition). Once they have become lenders of last resort, they need, in their own interest, to maintain the system. Domestic political change strengthens this willingness to accept imports and to become a market of last resort. Having evolved toward greater international leadership, Japan—the incipient leader of tomorrow—has found itself on the same path as hegemons of yesteryear.

[46] This conclusion is of course subject to the uncertainties of strategic bargaining. If the leader could extract high payments from others before committing its own cooperation, the deficiencies of hegemony could conceivably be remedied. So far, no hegemon has been able to produce this favorable result.

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INSTITUTIONS AND ECONOMIC POLICY:
Theory and a Korean Case Study

By STEPHAN HAGGARD and CHUNG-IN MOON*

THERE are two central debates about the role of the state in the economic development of the East Asian newly industrializing countries (NICs)—South Korea, Taiwan, Hong Kong, and Singapore. The first concerns the relationship between policy and economic outcomes, and pits market-oriented, neoclassical interpretations against statist alternatives.[1] The main issue in this debate is the extent to which direct state intervention in markets contributed to East Asia's remarkable economic performance.

The second debate addresses the political determinants of policy choice. Why did governments in East Asia choose relatively efficient policies, and why were they able to sustain them? Though a number of competing explanations have been advanced—from culture to international position—a recurrent theme is the peculiar "strength" of East

* This paper was first presented at the American Political Science Association Convention in Washington, DC, 1986. We would like to thank Tun-jen Cheng, Susan Collins, Bruce Cumings, Rick Doner, Gary Gereffi, Robert Kaufman, Chung Lee, David Lindauer, Doug Nelson, Greg Noble, Guillermo O'Donnell, Michael Shafer, and Eliza Willis for their comments on earlier drafts.

[1] Neoclassical interpretations of NIC growth can be found in Walter Galenson, ed., *Foreign Trade and Investment: Development in the Newly Industrializing Asian Economies* (Madison: University of Wisconsin Press, 1985). Neoclassical interpretations of Korea include Anne O. Krueger, *The Development of the Foreign Sector and Aid* (Cambridge: Harvard University Press [Studies in the Modernization of the Republic of Korea 1945-1975], 1979), and the contributions to *World Development* 16 (January 1988), a special issue on Korea. The statist view of the NICs is articulated in Gordon White and Robert Wade, eds., *Developmental States in East Asia* (Brighton, England: Institute of Development Studies, Research Report No. 16, 1985). Statist interpretations of Korea's growth include Leroy Jones and Il Sakong, *Government, Business and Entrepreneurship in Economic Development: The Korean Case* (Cambridge: Harvard University Press [Studies in the Modernization of the Republic of Korea 1945-1975], 1980), and Shahid Yusuf and R. Kyle Peters, "Capital Accumulation and Economic Growth: The Korean Paradigm" (Washington, DC: World Bank Staff Working Paper No. 712, 1985). Yung Whee Rhee, Bruce Ross-Larson and Gary Pursell, *Korea's Competitive Edge* (Baltimore: The Johns Hopkins University Press, 1984), and Youngil Lim, *Government Policy and Private Enterprise: Korean Experience with Industrialization* (Berkeley, CA: Institute of East Asian Studies, 1981) operate in a neoclassical framework, but give greater weight to the institutional setting.

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Asian states.[2] Recent literature on the NICs and on the political economy of stabilization has suggested that institutional arrangements, including regime type, the government's role in organizing interest groups, and the internal structure of the economic policy-making apparatus help to account for variations in policy choice, and thus for economic performance.[3]

Two basic lines of theory can be applied to link political institutions to policy outcomes, even though they have remained largely implicit in recent empricial debates. One focuses on how institutions reconcile individual and collective rationality within society as a whole. It is a central tenet of the theory of collective action that groups will organize not to advance collective welfare, but to guarantee a disproportionate share of societal income for themselves. Decision making that is responsive to particularistic group interests may lead to outcomes that are suboptimal for society as a whole.[4] Institutions can overcome these collective-action dilemmas in several ways. They can place restraints on self-interested behavior through rules backed by sanctions; collective-action dilemmas can be resolved by command. Particular institutional designs for the organization and representation of societal interests can give political elites greater independence from distributionist pressures and increase their

[2] The pioneering work in this vein on East Asia's growth is Chalmers Johnson, *MITI and the Japanese Miracle* (Stanford, CA: Stanford University Press, 1981); it was extended to the NICs in Johnson's "Political Institutions and Economic Performance: The Government-Business Relationship in Japan, South Korea and Taiwan," in Fred Deyo, ed., *The Political Economy of the New Asian Industrialism* (Ithaca, NY: Cornell University Press, 1987). Bruce Cumings provides a historical explanation of the strong state in Korea and Taiwan in "The Origins and Development of the Northeast Asian Political Economy," *International Organization* 38 (Winter 1984), 1-40. See also Jones and Sakong (fn. 1); Wade and White (fn. 1); Stephan Haggard and Chung-in Moon, "Liberal, Dependent or Mercantile?: The South Korean State in the International System," in John Ruggie, ed., *The Antinomies of Interdependence* (New York: Columbia University Press, 1983); Stephan Haggard and Tun-jen Cheng, "State and Foreign Capital in the East Asian NICs," and Fred Deyo, "State and Labor: Modes of Political Exclusion in East Asian Development," both in Deyo, ed., *The Political Economy* . . . , op. cit.; Alice Amsden, "The State and Taiwan's Economic Development," in Peter Evans, Dietrich Rueschemeyer, and Theda Skocpol, eds., *Bringing the State Back In* (New York: Cambridge University Press, 1985); Tun-jen Cheng, "Political Regimes and Development Strategies: Korea and Taiwan," in Gary Gereffi, ed., *Paths of Development in Latin America and East Asia: Comparative and Historical Inquiries* (Princeton: Princeton University Press, forthcoming); Thomas Gold, *State and Society in the Taiwan Miracle* (Armonk, NY: M. E. Sharpe, 1986); Roy Hofheinz, Jr., and Kent Calder, *The Eastasia Edge* (New York: Basic Books, 1982), chap. 3.

[3] See Stephan Haggard and Robert Kaufman, "The Politics of Stabilization and Structural Adjustment," in Jeffrey Sachs, ed., *Developing Country Debt and Economic Performance I: The International Financial System* (Chicago: University of Chicago Press, 1989).

[4] Mancur Olson, *The Rise and Decline of Nations* (New Haven: Yale University Press, 1982); Robert Bates, *Markets and States in Tropical Africa: The Political Bases of Agricultural Policies* (Berkeley: University of California Press, 1981).

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ability to extract resources, provide public goods, and impose the short-term costs associated with efficient economic adjustment. A growing literature on iterated noncooperative games suggests that institutions can also encourage cooperative outcomes in less coercive ways, particularly by lengthening the time horizons of participants and by providing information on the behavior of others.[5]

Cross-national evidence on the relationship between authoritarianism and economic performance remains mixed at best.[6] Nonetheless, a leitmotif in the literature on the development of the NICs is that they have been able to pursue politically sensitive economic policies because of the ability of authoritarian regimes to control interest-groups' access to government.[7] Weak legislatures that limit the representative role of parties, the corporatist organization of interest groups, and recourse to coercion all expand a government's freedom of economic maneuver.

A second line of theorizing examines how internal organizational characteristics of the state influence the formulation and implementation of public policy. Even if a government were impervious to various societal pressures, it might still be incapable of formulating coherent policy, or of translating policy objectives effectively into outputs. Theoretical work on organizations demonstrates that they are subject to collective action and principal-agent problems that undermine efficiency.[8] Various institutional designs, such as monitoring, accounting, and appropriate reward and incentive systems can help overcome these dilemmas and

[5] See David M. Kreps, Paul Milgrom, John Roberts, and Robert Wilson, "Rational Cooperation in the Finitely Repeated Prisoners' Dilemma," *Journal of Economic Theory* 27 (August 1982), 245-52; Robert Axelrod, *The Evolution of Cooperation* (New York: Basic Books, 1984).

[6] Conflicting evidence on the relationship between regime type and economic performance can be found in Thomas E. Skidmore, "The Politics of Economic Stabilization in Postwar Latin America," in James M. Malloy, ed., *Authoritarianism and Corporatism in Latin America* (Pittsburgh: University of Pittsburgh Press, 1977); John Sheahan, "Market-Oriented Economic Policies and Political Repression in Latin America," *Economic Development and Cultural Change* 28 (January 1980), 267–91; Robert Marsh, "Does Democracy Hinder Economic Development in the Latecomer Developing Nations?" *Comparative Social Research* 2 (1979), 215-49; William G. Dick, "Authoritarian versus Nonauthoritarian Approaches to Economic Development," *Journal of Political Economy* 82 (July/August 1974), 817-27; Erich Weede, "The Impact of Democracy on Economic Growth: Some Evidence of Cross-national Analysis," *Kyklos* 36 (Fasc. 1, 1983), 21-40; Karen Remmer, "The Politics of Stabilization: IMF Standby Programs in Latin America, 1954-1984," *Comparative Politics* 19 (October 1986), 1-25; Haggard and Kaufman (fn. 3).

[7] The link between authoritarianism and economic development in East Asia is a theme in Jones and Sakong (fn. 1); Wade and White (fn. 1); Johnson (fn. 2, 1987); Cumings (fn. 2); Haggard and Moon (fn. 2); Haggard and Cheng (fn. 2); Amsden (fn. 2); Cheng (fn. 2); Gold (fn. 2); Deyo (fn. 2); Fred Deyo, *Dependent Development and Industrial Order: An Asian Case Study* (New York: Praeger, 1981); Clive Hamilton, *Capitalist Industrialization in Korea* (Boulder, CO: Westview Press, 1986).

[8] This literature is summarized in Terry M. Moe, "The New Economics of Organization," *American Journal of Political Science* 28 (November 1984), 739-77.

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thus promote efficient decision making and implementation. It has been argued that policy has been coherent in the East Asian NICs because of the centralization of decision making in the executive or in a key bureau that has the power to reduce intrabureaucratic logrolling and conflict.[9]

Theoretical Limits on Institutionalism

A growing literature on the politics of debt crises shows that macroeconomic stabilization poses political challenges to the governments of developing countries.[10] Core stabilization policies, including control of the money supply as well as fiscal and wage restraint, are characterized by collective-action dilemmas.[11] While society as a whole benefits in the long run from the pursuit of stable macroeconomic policies, some groups benefit disproportionately, and all have an interest in pushing the costs of adjustment off onto others. Such policies thus provide good test cases of hypotheses concerning the importance of "strong" states in effective economic adjustment. Our analysis suggests that South Korea's ability to adjust, particularly when compared to the large Latin American debtors, can plausibly be linked to distinctive institutional capacities. When institutional arrangements changed with the transition to democracy, the government was exposed, predictably, to new interest-group constraints.

Four theoretical reservations emerge from our analysis, however. First, it is not clear why the policies that emanate from "strong" states should be optimal or efficient. As Douglass North has argued, the state can raise the costs of transacting, and can specify and enforce property rights in such a way as to capture the resulting gains for itself.[12] "Strong" states should be even more effective in this predatory behavior than weak ones. Analysts of developing East Asia, working with a biased sample of

[9] For the theoretical argument on the importance of bureaucratic-organizational design in the context of developing countries, see Barbara Geddes, "Building 'State' Autonomy in Brazil, 1930-1964," *Comparative Politics*, forthcoming; Johnson (fn. 2, 1981), chap. 1. On Korea, see Byung-Sun Choi, "The Structure of Economic Policy-Making Institutions in Korea and the Strategic Role of the Economic Planning Board," *The Korean Journal of Policy Studies* 2 (1987), 1-25; Byung-Kook Kim, "State Capacity for Reform: The State in Korea and Mexico," *The Korean Journal of Policy Studies* 3 (1988), 69-91.

[10] See Haggard and Kaufman (fn. 3).

[11] On the collective-action dilemmas in the making of macroeconomic policy, see Robert J. Barro and David B. Gordon, "Rules, Discretion and Reputation in a Model of Monetary Policy," *Journal of Monetary Economics* 12 (July 1983), 101-21, and Alberto Alesina, "Macroeconomic Policy in a Two-Party System as a Repeated Game," *Quarterly Journal of Economics* 102 (August 1987), 651-78.

[12] Douglass C. North, "Government and the Cost of Exchange in History," *Journal of Economic History* 44 (June 1984), 255-64, at 260; North, *Structure and Change in Economic History* (New York: W.W. Norton, 1981); Robert H. Bates, "Contra Contractarianism: Some Reflections on the New Institutionalism," *Politics and Society* 16 (September 1988), 387-401.

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success stories, have ignored the numerous cases that have the institutional trappings of a strong state and *poor* economic performance. Without specifications of the factors that limit predatory behavior, it remains a puzzle why the East Asian NICs adjusted swiftly and efficiently. We will show not only how the government was able to stabilize, but why inflation created particular political incentives to do so.

A second objection to an institutionalist approach to national-level policy making is the necessary reliance on highly aggregate characterizations of the political system, such as "authoritarian" and democratic," or "strong" and "weak."[13] These may be useful for cross-national comparisons, but they cannot explain variations in state capacity among regimes of a particular type, across issue areas, or vis-à-vis different social groups.[14] If the state were "autonomous" only from the working class, peasants, and marginal groups, there would be no way of differentiating an institutionalist perspective from societal theories of public policy; policy could be parsimoniously explained by the preferences of the dominant coalition. A critical test of the institutionalist perspective is whether state structures can insulate political elites from the demands of powerful interest groups. Korea's political structure in the early 1980s facilitated the imposition of costs on labor, the rural sector, and the bureaucracy, while the government maintained various discrete instruments of control over the private sector. Nonetheless, policy was *structurally* constrained by the growth of large industrial conglomerates and their power over aggregate economic performance. As Marxists have long argued, the degree of state autonomy cannot be derived solely from political structures without weighing the independent organizational, political, and economic resources of social groups.[15]

A third, and related, reservation concerns the relationship between politics and policy. It is a strength of institutional analysis to emphasize recurrent patterns and relatively enduring constraints on policy making.

[13] This applies to the early work of Peter Katzenstein, "Conclusion: Domestic Structures and Strategies of Foreign Economic Policy," in Katzenstein, ed., *Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States* (Madison: University of Wisconsin Press, 1978), and is implicit in virtually all of the work linking authoritarianism with rapid growth in the NICs, including Jones and Sakong (fn. 1), Wade and White (fn. 1), Johnson (fn. 2, 1987), Cumings (fn. 2), Haggard and Moon (fn. 2), Haggard and Cheng (fn. 2), Amsden (fn. 2), Cheng (fn. 2), Gold (fn. 2), and Deyo (fn. 8).

[14] See Herbert Kitschelt, "Four Theories of Public Policy Making and Fast Breeder Reactor Development," *International Organization* 40 (Winter 1986), 65-104.

[15] This critique is made by Nora Hamilton, *The Limits of State Autonomy: Post-Revolutionary Mexico* (Princeton: Princeton University Press, 1982), and Michael Shafer, "States, Sectors, and Social Forces: Korea and Zambia Confront Economic Restructuring," *Comparative Politics*, forthcoming. A critical reflection on the relationship between Marxism and rational-choice models is included in Adam Przeworski, "Marxism and Rational Choice," *Politics and Society* 10 (September 1985), 125-53.

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But it is also a weakness because it can lead to an overemphasis on the *state* as organizational structure at the expense of *government* as a creature of political exigencies. Coalitional calculations operate even in "strong" states.

Stabilization put the Korean government in a double bind. Prior to the transition to democratic rule, the government retained the ability to impose policies in the name of economic efficiency. Continuities in internal decision-making structures provided for greater stability in economic policy after Korea's transition than was evident during the transitions in Argentina and Brazil.[16] With the announced intention to democratize, however, the executive came under increasing pressure from politicians in the ruling party to make concessions on economic policy. Moreover, the very reforms called for by the technocrats limited the discretionary policy tools that had previously been used for political ends. The government was trapped between the dictates of stabilization and its political interest in developing political support. With the transition—in effect, a change in institutional structure—the constraints on governmental decision making became more direct. To explain how political elites behave in the face of such constraints, institutional analysis must be supplemented by variables such as the strategy of the opposition and the coalition-building options available to the government.

Democratization in Korea raises a final point that is of normative as well as analytic significance. It is doubtful that there are unique institutional solutions for reducing the social constraints on economic policy; a variety of institutions may be functionally equivalent in their ability to restrain rent-seeking groups. If this is true, authoritarian rule is a necessary condition for stabilization only under quite particular circumstances that must be carefully specified. The literature on Western European corporatism suggests that peak associations with a secure place in the political process and clear access to decision making may serve a similar function in a democratic setting.[17] Democratic corporatist structures can mitigate the Prisoners' Dilemmas that frequently characterize state-labor and labor-management relations by institutionalizing bargaining and changing the rate at which labor discounts future advantages arising from sustained cooperation.[18] In view of the current tran-

[16] On the difficulties faced by transitional democracies in Latin America, see Robert Kaufman and Barbara Stallings, "Debt and Democracy in the 1980s: The Latin American Experience," in Stallings and Kaufman, eds., *Debt and Democracy in Latin America* (Boulder, CO: Westview Press, 1989).

[17] Peter Katzenstein, *Small States in World Markets: Industrial Policy in Europe* (Ithaca, NY: Cornell University Press, 1985).

[18] Peter Lange, "Unions, Workers, and Wage Regulation: The Rational Bases of Consent,"

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sition to democratic governance in Korea and elsewhere, the availability of such options is of great interest.

In the next section, we will review the economic problems Korea faced in the late seventies and early eighties, as well as the new policy line for managing them that emerged within the government. We then disaggregate the politics of stabilization into fiscal, wage, and monetary and credit policies. This allows us to focus on variations in the state's capacity to act in reference to different issues and social groups. After examining the effects of political liberalization on economic policy, we conclude with an assessment of the institutionalist agenda.

Economic Crisis and the Emergence of a "New Line"

In 1979, the South Korean economy faltered.[19] Growth rates that had averaged almost 10 percent a year between 1962 and 1978 fell to just over 2 percent between 1979 and 1981, with a particularly sharp contraction of the economy in 1980. At the same time, inflation rose to 26 percent from an annual average of 16 percent between 1962 and 1978. Exports fell from a 27 percent average annual rate of real growth between 1962 and 1978 to 7.5 percent between 1979 and 1982. The current-account deficit widened from $1.1 billion in 1978 to $4.4 billion in 1981. Complicated interactions between domestic policy and the external environment make it difficult to weight the importance of the various factors contributing to the economic crisis.[20] Exogenous shocks, both international and domestic, contributed to Korea's problems: the second oil shock worsened Korea's terms of trade and balance of payments; rising interest rates increased the country's debt-service burden; the assassination of President Park in 1979 created uncertainty; and a major crop failure in 1980 aggravated inflationary pressures and slowed growth.

Prior to the second oil shock, however, a consensus had emerged

in John H. Goldthorpe, ed., *Order and Conflict in Contemporary Capitalism* (Oxford: Clarendon Press, 1984).

[19] On the economic crisis, see International Bank for Reconstruction and Development [hereafter World Bank], *Korea: Current Developments and Policy Issues* (Washington, DC: World Bank, Report #3005-KO, 1980). On the attendant political instability, see Chong-Sik Lee, "South Korea 1979: Confrontation, Assassination, and Transition," *Asian Survey* 20 (January 1980), 63-76. All statistical data are from Economic Planning Board [hereafter EPB], *Economic Indicators* (Seoul: EPB, 1988).

[20] EPB, *Uri Gyungje ui Hyun Hwang qwa Unyong Bangan* [Present Status of Our Economy and Management Policies] (Seoul: EPB, December 1982), 4-8; Susan Collins and Won Am Park, "External Debt and Macroeconomic Performance in Korea," in Jeffrey Sachs, ed., *Developing Country Debt and Economic Performance III: Country Studies* (Chicago: University of Chicago Press, 1989).

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within the economic bureaucracy that government policy was partly to blame for Korea's economic problems.[21] Beginning in the mid-1970s, the country departed from its emphasis on labor-intensive manufactures in order to expand the heavy and chemical industries.[22] The formulation and implementation of the heavy-industry plan epitomized the "strong" state. Planning was highly centralized in the Blue House and the Ministry of Commerce and Industry (MCI), bypassing the more orthodox Economic Planning Board (EPB). Because President Park had given the heavy industry plan his personal imprimatur and linked it to national security objectives, there were strong limits on internal bureaucratic criticism of the plan.[23] Moreover, the government had centralized control over the policy instruments required to implement its designs, despite some initial scepticism from business. From 1977 to 1979, 80 percent of total investment in manufacturing went into the heavy and chemical industries, largely in the form of "policy loans" from the state-owned banking system.[24] At the broader political level, the new authoritarian structures of the Yushin Constitution precluded legislative scrutiny.

According to the new technocratic critique, the heavy-industry drive contributed to the increase in inflationary pressures and created numerous structural problems. Acute labor shortages occurred in high-skill categories.[25] Nominal wages rose 142 percent between 1975 and 1978, but consumer prices and labor productivity increased by only 45 percent and

[21] Our primary source on the internal debates on structural adjustment is Korea Development Institute [KDI], *Gyungje Anjunghwa Sichaek Jaryo Jip* [Collection of Materials on Economic Stabilization Policies] (Seoul: KDI, 1982), vols. 1 and 2. See also Tony Michell, "What Happens to Economic Growth when Neo-Classical Policy Replaces Keynsian?: The Case of South Korea," *IDS Bulletin* 13 (December 1981), 60-67; Korea Exchange Bank, *Monthly Review* 14 (December 1980); "Daedam: Ilsi Chimchae Nya Gujojok Bulwhang Inya?" [Roundtable: Temporary Downturn or Structural Recession?], *Shin Dong Ah*, July 1980, pp. 72-101; The Republic of Korea, *Je 5 Cha 5 Gaenyun Gyungje Sahoi Gaebal Gye-Hyoik: Sujung Jichim 1984-1986* [The Fifth Five Year Social and Economic Development Plan: Directions for Revision 1984-1986] (Seoul, 1983), 1-20.

[22] For an introduction to the plan, see EPB, *Heavy and Chemical Plan* (Seoul: EPB, 1973). For the internal debate, see KDI, *Sanup Jungchaek ui Gibon Gwaje wa Jiwon Sichaek ui Gaepyun Bangan* [Fundamental Tasks of Industrial Policy and Directions for Reform in Supportive Policies] (Seoul: KDI Research Report #82-09, 1982).

[23] Chung-in Moon, "South Korea: Between Security and Vulnerability," in James Katz, ed., *Implications of Third World Military Industrialization* (Lexington: Lexington Books, 1986); Byung Yun Park, "Junghwahak Gongup ui Naemak" ["The Inside Story of the Heavy and Chemical Industries], *Shin Dong Ah*, May 1980, pp. 194-210; Young Chul Park, "70 Nyundae ui Goimul, Gwayoksok ui Junghwahak Gongup" [Monster in the 1970s: The Ambition of Heavy and Chemical Industrialization], *Chungkyung Munhwa*, May 1984, pp. 138-47; KDI (fn. 21), 1175-90.

[24] World Bank (fn. 19), 19.

[25] David Lindauer, *Labor Market Behavior in the Republic of Korea: An Analysis of Wages and Their Impact on the Economy* (Washington, DC: World Bank Staff Working Paper No. 641, 1984).

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33 percent respectively; the result was a loss of international competitiveness. A second consequence of the "deepening" strategy was growing industrial concentration. The government's drive to create general trading companies on the Japanese model was built on an array of special incentives to the trading arms of the largest manufacturing conglomerates known as *chaebol*. The Heavy and Chemical Industry Plan favored these groups, which enjoyed heavily subsidized credit, monopoly or oligopoly market positions, protection and restrictions on competing foreign investment, fiscal incentives, and guaranteed sales through government procurement. In 1973, the top fifty *chaebol* accounted for 32 percent of GDP. By 1980, the *chaebol* dominated the economy, accounting for 49 percent of GDP, 24 percent of total sales, 18 percent of manufacturing employment, and over half of Korea's total exports.[26]

Two additional problems resulted from growing industrial concentration. Small- and medium-sized industries—the very companies most vulnerable to rising wages—faced a credit squeeze as resources were channeled to the *chaebol*. These firms had been the backbone of Korea's successful export of labor-intensive manufactures. Meanwhile, the financial structures of the largest firms became increasingly fragile due to the heavy debt contracted through the state-owned banking system.

These economic problems had political consequences that help to explain the incentives to stabilization. Since the initiation of the authoritarian Yushin Constitution in 1972, critics of the Park regime had focused mainly on political grievances. During the late seventies, they turned their attention to economic mismanagement as well. The "big push" was blamed for the increasing concentration of wealth, the widening gap between rural and urban incomes, the growth of urban marginalism, and—perhaps most importantly—sharp increases in the prices of basic necessities and housing in urban areas. The combination of worsening economic conditions and a repressive stance toward political protest threatened to produce a broad coalition of the disaffected: opposition politicians, students, the lower strata of the labor movement, intellectuals, and church leaders. Blocking the formation of such "horizontal coalitions" through restrictions on political organization as well as outright repression had been a central strategy of Park's authoritarian rule.

[26] KDI (fn. 21), 1015-34; Il Sakong, "Gyungje Sungjang gwa Gyungjeryuk Jibjung" [Economic Growth and the Concentration of Economic Power], *KDI Review* 1 (March 1980), 2-13; *Hankuk Ilbo*, September 29, 1981, Appendix pp. 5-8; *Dongah Ilbo*, December 1, 1984, p. 4; Leroy Jones, "*Jaebul* and the Concentration of Economic Power in Korean Development: Issues, Evidence and Alternatives," in Il Sakong, ed., *Macroeconomic Policy and Industrial Development Issues* (Seoul: Korea Development Institute, 1987).

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Under new leadership, the Economic Planning Board forged a policy consensus within the bureaucracy by drawing on the work of a group of young, foreign-trained economists.[27] The new economic cabinet outlined a strategy that implied a fundamental break with the style of economic management of the past:

1. emphasis on comparative advantage rather than industrial targeting and import substitution;
2. transition toward an economy led by the private sector;
3. a general reduction of state intervention and wider play for market forces;
4. emphasis on social development;
5. vigorous pursuit of macroeconomic stabilization.[28]

A stabilization plan was announced on April 17, 1979, to meet the most pressing problem, namely, the acceleration of inflation.[29] Growth targets, export targets, investment in heavy industry, and government spending were to be more tightly controlled, reversing a legacy of expansionist policies. On October 26, 1979, before the new plan could be fully implemented, President Park Chung Hee was assassinated. After a brief political opening, the military seized power in May 1980 under the leadership of Major General Chun Doo-Hwan. The economic subcommittees of the interim National Security Council (May 1980-March 1981) dictated economic policy. The subcommittees were composed of an odd mix of populist military officers, middle-level economic bureaucrats, and market-oriented technocrats intent on stabilization. Seeking to distance themselves from the politics of the Park era, the younger officers set distributive justice and the creation of a welfare state as central political aims.[30] They criticized the corruption and decadence of big business and launched a wide-ranging "social purification" campaign. A number of heavy and chemical industries were subjected to sweeping reorganization by government fiat.

As the transition period came to a close and the young officers re-

[27] The change in leadership came in December 1978. Shin Hyun-Whack replaced Nam Duck-Woo and brought young economists critical of past policy—including Kang Kyung-Sik, Suh Suk Jun, Kim Ki Hwan, and particularly Kim Jai-Ik—to positions of prominence.

[28] KDI (fn. 21), 20-22, 221-56.

[29] KDI (fn. 21), 22-24, 345-75, 379-87; Kwang Sik Sohn, "Gyungje Daetongryung, Park Chung Hee ui Dilema" [Economic President: Park Chung Hee's Dilemma], *Chungkyung Munhwa*, December 1983, pp. 66-75.

[30] See Office of the President, *Chun Doo Hwan Daetongryung Yonsuljib: Je 5 Gonghwakuk Chulbum Pyun: 1980.8-1981.4* [Collection of President Chun Doo Hwan's Speeches: The Launching of the Fifth Republic from August 1980 to April 1981] (Seoul, 1981); KDI (fn. 21), 679-98, 1190-1214; EPB, *Gongjung Guhlae Baikṣuh* [White Book on Fair Trade] (Seoul: EPB, 1984).

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turned to the barracks or were reassigned, the economists responsible for the earlier stabilization effort regained positions of authority. The institutions of the new Fifth Republic exhibited fundamental continuities with the Yushin system: a strong president, a weak legislature and judicial system, limitations on political activity, and an even more restricted press. Economic policy making was again centralized in the Economic Planning Board. With this political structure and strong support from the president, the technocrats had wide freedom of maneuver in pursuing their economic agenda, including liberalization of the financial market, privatization of the commercial banks, and liberalization of imports and of previous restrictions on foreign direct investment. A Monopoly Regulation and Fair Trade Law, the restructuring of the heavy-industry sector, and limitations on credit to the *chaebol* seemed to signal a tougher policy toward big business.[31]

Despite this ambitious agenda for structural reform, the top priority of the government was stabilization, using the conventional tools of fiscal restraint, monetary control, devaluation, and controls on wages.[32] In the short run, the centralized power of the new government and the absence of effective channels of opposition allowed the imposition of the costs associated with these orthodox reforms. Farmers' organizations had long been penetrated by and closely tied to the state; they were vulnerable because of the government's control of inputs, credit, and marketing. The civil service lacked independence, and the military thus wielded tremendous power over the bureaucracy. The labor movement had always been subject to various state controls, through limits on organization and strike activity, through informal penetration, and through government participation in the settlement of disputes; under the new government, the system of industrial relations became even more repressive.

By contrast, the very weight of the *chaebol* in the economy made it extremely difficult for the government to disengage from past patterns of support. It was limited in its ability to launch structural reforms, such as import liberalization and effective privatization of the banking sector, by the poor financial position of the largest firms. Therefore, it vacillated on restricting credit, and finally engineered a huge bailout for a number of troubled companies. These patterns become clear when we analyze the political economy of stabilization in more detail.

[31] Interviews with Shin Byung-Hyun: *Shin Dong Ah*, November 1981, pp. 181-93; *Hankuk Ilbo*, August 25, 1981, p. 3.

[32] EPB, *Gyungje Baiksuh* [White Book on the Economy] (Seoul: EPB, 1981), 73-75.

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The Politics of Stabilization

Fiscal Restraint

Even though Korea did not experience the fiscal crises typical of the large Latin American debtors, fiscal restraint was a central component of the stabilization effort. The rate of increase in government expenditure dropped from 22 percent in 1981 to zero in 1984. This is particularly impressive because average annual growth rates of government spending between 1962 and 1979 had been 28 percent.

An institutionalist perspective helps to explain the government's ability to maintain a fiscal balance and to trim government spending further. Korea's budgetary process is centralized and highly insulated from political pressures.[33] In addition, the country's fiscal structure is relatively rigid. Under a bilateral defense burden-sharing agreement with the United States, Korea has traditionally allocated at least 6 percent of GNP for defense. This normally takes 30 percent of the budget. Debt service, grants to local governments, educational financing, and wages for public servants account for another 40 percent. The Economic Planning Board, which wields virtual veto power over the estimates submitted by the other ministries, controls the remaining 30 percent. Though there were some minor budgetary adjustments as a result of consultation with officials of the ruling party, the legislature's role under the Chun government was basically limited to approving proposals by the executive branch. Interest-group access to the process, either through the Assembly or through the EPB, was nil.

The general administrative sector was subjected to a dramatic squeeze, demonstrating the military's unique ability to act as a parallel bureaucracy in restructuring the government itself. A wage freeze was imposed on public-sector employees. Throughout the bureaucracy, including the military, promotions were delayed and hirings frozen. An organizational reform of the government sector was implemented, and redundant and overlapping agencies were either eliminated or merged. The most drastic step was the actual laying off of public servants. This measure was achieved partly through enforcing early retirement; but under the aegis of the "purification" campaign, corrupt employees were also dismissed. In this way, the Korean government eliminated more than 15,000 positions.[34]

[33] On the Korean budgetary process, see Miyohei Shinohara, Toru Yanagahira, and Kwang Suk Kim, *The Japanese and Korean Experiences in Managing Development* (Washington, DC: World Bank Staff Working Paper No. 574, 1983), 57-63.

[34] Office of the Budget, EPB, "Kukga Yesan Donggyul gwa Jungchaek Baegyung: Gyoyu-

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Additional substantial cuts were realized in special account items, primarily various government subsidies. Cutting subsidies has generally been a major stumbling block to successful stabilization in developing countries.[35] In Korea, however, a number of subsidies were targeted for elimination. The Grain Management Fund, a bête noire of the technocrats, supported a dual price system that subsidized farmers while maintaining low food prices to urban consumers.[36] Despite the fact that these subsidies were extremely costly to operate, political considerations had left them intact, thus continuing President Park's strategy of drawing support from conservative rural areas. The system allowed farmers to receive average annual grain price increases of 20 percent during the 1970s, at a time when the country was losing its comparative advantage in agriculture. The figure was cut to 14 percent in 1981, and was frozen in 1982 and 1983. A Fertilizer Account, through which the government purchased fertilizer and sold it to farmers at subsidized prices, had incurred deficits of approximately $450 million as of 1980. As part of the stabilization effort, the government began to raise fertilizer prices, gradually disengaging itself from direct sales and distribution.[37]

Business was not altogether immune from the effects of fiscal tightening. In the early 1980s, the government began to trim over thirty public accounts established to finance government-sponsored projects. To ensure executive discretion over these funds, they had been off-budget, set up through a legislative process entirely separate from normal fiscal appropriations. Included were moneys for the promotion of the defense industry and a number of priority sectors such as machinery and electronics. The stabilization effort eliminated many of these funds or transferred them to state-owned financial institutions.[38] Public enterprises, a major drain on government expenditures in many developing countries, were generally efficient in Korea due to government discipline exercised

kyong Jaryo" [National Budget Freeze and Policy Background: Educational Materials], mimeo, August 1983; Suk June Cho, "Jungbu Ginung ui Jaegyumto wa Jungbu Ginung Bunsuk Jakup" [Reexamination and Analysis of Government Functions], in Kwang Choi, ed., *Kukga Yesan gwa Jungchaek Mokpyo* [National Budget and Policy Objectives] (Seoul: KDI Report #83-07, 1983); *Chosun Ilbo*, September 23, 1985, p. 3.

[35] Joan Nelson, "The Politics of Stabilization," in Richard E. Feinberg and Valeriana Kallab, eds., *Adjustment Crisis in the Third World* (New Brunswick, NJ: Transaction Books, 1984); Henry Bienen and Mark Gersovitz, "Economic Stabilization, Conditionality, and Political Stability," *International Organization* 39 (Autumn 1985), 729-54.

[36] Byung Suh Ryu, "Yanggok Gwanli wa Gyejung" [Grain Management Account], in Kwang Choi (fn. 34); Sung Hun Kim, "Yangjung Jungchaek ui Junhwan gwa Baegyung" [Background and Reality of the Grain Management Policy Shift], *Shing Dong Ah*, June 1979, pp. 176-85.

[37] Office of the Budget (fn. 34), 48-50.

[38] Sun Lee, "Biryo Gyejung ui Unyong Hynghwang Bunsuk" [Analysis of the Fertilizer Account Operations], in Kwang Choi (fn. 34).

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through tight limits on budgetary transfers. Nonetheless, their operations were reformed to reduce the central government's contributions further and to limit political appointments.[39]

In these ways, the ascendance of the military in a quasi-revolutionary context, as well as controls on the freedom and organization of interest groups, allowed the new regime to cut subsidies and sustain fiscal austerity. Farmers—perhaps the major victims of the cuts in subsidies—lacked independent political organization and were closely tied to the state through marketing channels and the supply of inputs and credit. Centralized control over all phases of the budget process allowed the military to overcome pockets of resistance in the bureaucracy and the state-owned enterprise sector, both of which were subjected to new austerities.

Wage Policy

Through the latter part of the 1970s, South Korea suffered from high inflation and eroding ability to compete internationally. Technocrats ascribed this to wage increases that exceeded gains in labor productivity. Between 1976 and 1978, Korean workers enjoyed rapidly rising real wages. During the stabilization period, this trend was reversed. Real wages fell in 1980 and 1981. After 1982, gains in productivity allowed real wages to rise again, even in the face of a large devaluation; still, real wages did not keep pace with productivity increases.

Wage determination is the result of economic conditions and labor-market factors as well as of government policies. The ability of the Korean government to control wages is severely limited by the openness of the economy. Nonetheless, the organizational (if not simply coercive) capabilities of the government can be credited with at least a minor role in containing wage growth; they were certainly significant in limiting strikes and labor union activity. These efforts in turn contributed to the government's ability to achieve price stability.[40]

For most of the 1970s, the government had acted to guarantee labor peace, but it did not intervene directly in setting wages. Government approval was required for collective negotiations, and government arbitration was automatic and binding. Strikes and lockouts were prohibited; the government intervened extensively, if informally, in the internal politics of the unions. After 1980, the government assumed a more active

[39] Office of the Budget (fn. 34), 51-54; Dae Hee Song, "Gong Giup ui Nakhasansik Insa Siltae" [Revolving-Door Personnel Management of Public Enterprises], *Shin Dong Ah*, April 1985, pp. 404-13.

[40] Lindauer (fn. 25); Funkoo Park and Tarsicio Castaneda, "Structural Adjustment and the Role of the Labor Market" (Seoul: KDI Working Paper No. 8705, 1987).

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role in the wage-setting process as well, attempting to use public-sector wages to set the range for increases in the private sector. State-owned banks reinforced the policy by insisting that borrowers reduce debt-equity ratios to specific targets before granting raises; these were to be limited to increases in productivity.

The new wage policy contributed to a more confrontational phase in state-labor relations. Under increasing pressure from the rank and file, the Federation of Korean Trade Unions (FKTU) demanded that wage increases match increases in labor productivity *and* inflation. During the brief political opening in 1980, labor unions pursued internal organizational reforms in order to reduce the pervasive governmental interference in their operations. These attempts ended when the military government launched an extensive purge of top union leaders, amended the Trade Union Law, and once again restricted strike activity. The new system of industrial relations granted workers the freedom to organize unions with the consent of thirty workers per workshop, or with the consent of 20 percent of total workshop members. But the law transformed the overall union structure from industrial unionism, under which the top federation controlled the bottom units, to a system of company unions.[41] Decentralization fragmented a potential political opponent by limiting the ability of labor to form alliances with other groups.

The new Labor Dispute Law proved even more damaging to labor's power. Article 47 of the law prohibited any third-party intervention in labor disputes.[42] The provision was originally designed to prevent so-called "impure elements" such as church or student activists from participating in labor affairs, but it also blocked intervention by the FKTU and the industrial unions in labor disputes. The controversial Labor-Management Council Law required the establishment of factory-level councils; unionists feared that these might supplant independent unions altogether. Following these changes, membership in the FKTU plummeted from 1.5 million before 1980 to only 800,000 in 1984.[43] Behind the restrictions on third-party intervention stood the government's monopolization of the mediation process. The Labor Dispute Law made gov-

[41] See Soo Kon Kim, ed., *Nosa Gwangye Jungchaek Gwaje wa Banghyang* [Tasks of Labor-Management Relations and Policy Directions] (Seoul: KDI, 1983); Christian Institute for the Study of Justice and Development [CISJD], *Gaejung Nodongbub ui Naeyong gwa Gaesun Banghyang* [The Contents of the Amended Labor Law and Directions for Improvement] (Seoul: CISJD, 1981).

[42] Michael Launius, "The State and Labor in South Korea," *Bulletin of Concerned Asian Scholars* 16 (October and December 1984), 7.

[43] Jung Suk Suh, "Daehan Nochongul Haebu Handa" [The Anatomy of the Federation of Korean Trade Unions], *Shin Dong Ah*, April 1985, pp. 482-508; *Far Eastern Economic Review*, July 19, 1984, pp. 73-74.

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ernment approval mandatory for initiating collective bargaining. Labor unions were prohibited not only from striking, but even from negotiating independently.

The regime's attempt to control labor ran into serious obstacles as labor struggled to develop new organizational capabilities of its own. A shift in the government's own political objectives also constrained it in dealing with labor. In the short run, however, the new system of industrial relations significantly weakened labor's political power, and probably had some effect on its market power as well.

Monetary and Credit Control: Confronting Business

The economic logic of the "new line," as well as the political interests of the new Chun government, argued for basic changes in business-state relations. The government's protection of the private sector, encouragement of business concentration, and preferential credit schemes were held responsible for numerous ills. As a result, there was increasingly open political conflict between big business and the government, with large firms seeking to hold "confidence" and economic performance hostage to "appropriate" policies.

One of the central areas of conflict was monetary and credit policy. Initially, the government proved successful in managing the growth of the money supply. During the peak of the boom period (1977-1978), M2 grew more than 35 percent per year. During 1980 and 1981, the first two years of stabilization, this growth declined to 25 and 27 percent; it dropped to 15 and 8 percent in 1983 and 1984. The primary tool of monetary policy was credit control. Fiscal discipline reduced the government's borrowings from the Bank of Korea, but credit to the private sector was also limited. The annual growth rate of domestic credit expansion fell from just over 40 percent in 1980 to 13 percent in 1984.

In reducing credit to the private sector, the government targeted preferential financial schemes that had previously been extended to particular industries.[44] In 1978, such preferential finance accounted for 51 percent of total domestic credit. The ratio was cut to 40 percent in 1982-1984. But the ratio of preferential loans to total bank loans showed a different trend. In 1982, the second year of stabilization measures, it was 62 percent, a 6 percent decrease from 1980; it increased to 68 percent in

[44] On the role of the financial sector in Korea's development, see David Cole and Yung Chul Park, *Financial Development in Korea* (Cambridge: Harvard University Press, 1983); Wontack Hong and Yung Chul Park, "The Financing of Export-Oriented Growth in Korea," in Augustine H. H. Tan and Basant Kapur, eds., *Pacific Growth and Financial Interdependence* (Sydney: Allen & Unwin, 1985).

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1983 and to 70 percent in 1984.[45] These figures suggest that, while the growth of *overall* domestic credit to the private sector was being reduced, the *relative share* of preferential financing to total bank credit actually increased. Thus, despite its interest in reducing its financial support to the private sector, the government remained bound by prior commitments, the weak financial structures of the largest firms, and a set of development goals that demanded the private sector's cooperation.

New credits were needed for a number of purposes that are revealing of the structural limits on the government's freedom of maneuver. First, the government was forced to act as the lender of last resort in the wake of three major financial scandals.[46] Second, rescue financing was extended to firms in a number of problem sectors, including overseas construction, shipping, textiles and apparel, and plywood. The government also committed additional resources to restructure and "normalize" several heavy and chemical industry sectors, such as shipbuilding, which had been the object of earlier promotional efforts.[47] Finally, as new industrial priorities took shape, the government reverted to its traditional means of support through targeted lending, though with a shift in sectoral emphasis. The principal beneficiary of the new policy loans was, once again, the big-business sector. In 1983, the thirty largest firms accounted for 48 percent of total bank credit; the five largest conglomerates—Hyundai, Daewoo, Samsung, Ssangyong, and Lucky Gold Star—alone accounted for 24 percent.[48]

Despite these continued commitments to the *chaebol*, business-government relations were strained under the Fifth Republic. Departing from a central tenet of Park's economic strategy, the economic liberals within the bureaucracy criticized the use of government credit for financing the development of heavy industry, arguing that it had contributed to overconcentration, inefficiency, and a weakening of the country's financial system. Implicit in the technocrats' reforms, therefore, was a restructuring of the relations between the private sector and the state-owned banks. Shin Byung-hyun, then head of the EPB, articulated the new view:

> Big business in Korea has grown out of bank credit. Now is the time for big business to stand on its own feet. Big business should depart from its dependence on the government and inefficient investments. Big business'

[45] EPB (fn. 20), 34-35.

[46] On the financial scandals, see *Far Eastern Economic Review*, May 21, 1982, pp. 52-56, and October 22, 1982, pp. 68-69.

[47] *Hankuk Ilbo*, April 9, 1985, p. 4; *Chosun Ilbo*, May 12, 1986, p. 3; Laxmi Nakarmi and Jang Jung-Soo, "Big Business Looks Less Beautiful," *Business Korea*, December 1984, p. 25.

[48] *Dongah Ilbo*, August 22, 1984, p. 3.

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argument that bank control of credit will not allow investment in high-tech fields is nonsense. Before it demands any additional bank credit, it should get rid of redundant subsidiaries and improve corporate financial structures.[49]

The move against big business also had a potentially conflicting political rationale. By the late 1970s, growing concentration and the incestuous relations between big business and the government had become a political liability. It was common knowledge that, during the Park period, large firms paid "political taxes" that financed the ruling party in return for favorable treatment on a range of discretionary policies from credit allocation to taxation. Critics of the regime argued that the tight business-politics connection (*chungkyung yuchak*) was responsible for widespread corruption. Growing inequity, economic concentration, foreign indebtedness, and sectoral imbalances were attributed to the power of the *chaebol*.[50]

In its initial effort to distance it from the Park period, the Chun government attacked the *chaebol*. Shortly after his inauguration, President Chun devised the Credit Administrative System for Big Business and proclaimed a series of measures requiring the *chaebol* to sell off certain subsidiaries and to liquidate "unproductive" real estate investments that were unrelated to their main lines of business. The measure was directed at 26 groups that held a total of 631 subsidiaries. Further availability of credit was made contingent on compliance. Another step was the enactment of the Monopoly Regulation and Fair Trade Law in April 1981, aimed at the dominant position of the *chaebol* in the domestic market. The government also announced a far-reaching plan for import liberalization. Although it was partly a response to foreign pressure, import liberalization was also aimed at manufactured goods that enjoyed protected monopolistic or oligopolistic positions in the domestic market.[51]

Chun's efforts to tame big business were structurally constrained by

[49] Shin in "Daedam: Gyungje Nankuk, Himuroman Motpunda" [Roundtable: Economic Difficulties Cannot Be Solved by Force Alone], *Shin Dong Ah*, May 1985, p. 434.

[50] These themes were widely used by the opposition. See So Woong Hwang, "Jungchi Jakum ui Hoirang"[Channels of Political Funds], *Chungkyung Munhwa*, December 1982, pp. 118-28; Sang Ki Sim, "Jungchi Jakum ui Naemak" [The Inside Story of Political Funds], *Wolgan Choongang*, October 1977, pp. 90-103; Kyung Nam Lee, "Haebang ihu Gyonryukhyung Bujung Chukjae Saryaidul" [Cases of Illicit Wealth Accumulation through Political Connections since Independence], *Shin Dong Ah*, April 1985, pp. 290-311; Seung Je Koh, "Chaebol Giup gwa Bangiup Gamjung" [Chaebol and Anti-corporate Sentiment], *Wolgan Chosun*, August 1983, pp. 74-83. For a critical review of trends in income distribution, see Hagen Koo, "The Political Economy of Income Distribution in South Korea: The Impact of the State's Industrialization Policies," *World Development* 12 (October 1984), 1029–37.

[51] KDI (fn. 21), 897-911; "Import Liberalization Plan and Its Background," *Hanil Monthly Bulletin*, April 1984, pp. 5-12; EPB, *Gongjung Guhlae Baiksuh* [White Book on Fair Trade] (1983, 1984).

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the latter's very weight in overall economic activity. Efforts to control the behavior of the private sector and to limit the government's commitments were followed by the extension of new assistance and efforts to reestablish confidence. The restructuring of the heavy and chemical industries in 1980 and 1981 and the new commitment to stabilization and market-oriented policies created strains with the private sector. The government initially ignored demands for a loosening of credit, but relented in 1982 and 1983 with a series of new loans and bailouts. The cycle began again in 1984, with credit being frozen to the 1983 level.

Despite the government's stated intention to liberalize the financial sector, a variety of direct and indirect controls limited the operation of commercial banking.[52] As a result, a secondary financial sector flourished, accounting for much of the actual liberalization of financial services that took place, and providing a new set of market options to state-controlled credit. Owned in part by the largest *chaebol*, secondary financial institutions became major pipelines for financing big business. In 1984, however, these firms were ordered to limit loans to their parent organization to 10 percent of their total available credit.

Faced with these restrictions, the Federation of Korean Industries (FKI) launched a political counterattack.[53] The FKI defended the "big push," arguing that concentration was necessary to achieve economies of scale. The Federation further maintained that controls on credit to large firms would depress investment and limit the pace of recovery; that inefficiency and weak corporate financial structures were the result of government policies; that business conglomerates had been forced to take over delinquent firms, and had followed the government's priorities in making investment decisions; and that investment by big business was crucial, not only because of its direct role in exports and employment, but also because of the dependence of small and medium-sized firms on larger ones through subcontracting and marketing relationships. Finally, it argued that punishing big business for its size, success, and compliance with government directives was both unfair and counterproductive.

An expansion of credit was needed to boost investment, but such a strategy raised the question of the financial fragility of the *chaebol*. The ratio of debt to equity of 202 firms listed on the stock exchange averaged 4.6, compared to 3.6 for the manufacturing sector as a whole.[54] Return

[52] *Dongah Ilbo*, August 22, 1984; *Hankuk Ilbo*, September 20, 1984.

[53] See Federation of Korean Industries, "Anjunghwa Sichaek gwa Giup ui Jakum Sajung" [The Stabilization Policy and the Financial Situation of Corporations], *Chun Gyung Ryun*, December 1983, pp. 28-34; "Daegiup Yosin Gyuje ae Paengpaenghan Gongbangjun" [The Feud over Credit Controls on Big Business], *Maegyung*, August 27, 1984.

[54] The debt-to-equity ratios for Korean firms, derived from 202 of the 230 firms listed on the Korean stock exchange, are high compared even with those of Japan (3.2), which in turn

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on the paid-in capital of these firms was only 7.6 percent, and net profit as a percentage of net sales was only 1.1 percent.[55] This weak financial structure made the technocrats and the banking community hesitant about committing further support. The Kukje Group provided the first test case. Kukje, the sixth-largest group in Korea, began to experience severe cash-flow problems in the middle of 1984. Shrinking Middle East markets, ambitious corporate expansion, and poor export performance had put the group under strain. When Kukje requested financial relief from the government, it decided to let one firm go bankrupt as a signal to other firms.[56] Rumors circulated that Daewoo, the second-largest group, was next.

In fact, the cost of allowing further bankruptcies among the largest firms would have been prohibitively high. Over the course of 1984, the government periodically used the Korea Exchange Bank (KEB) to extend relief to troubled firms.[57] By the summer of 1985, these ad hoc measures proved to be inadequate. The commercial banking sector, which the government had gradually been liberalizing, was saddled with nonperforming assets in the construction and shipping industries and other sectors previously targeted by the government. In July, the Monetary Board amended a Bank of Korea regulation allowing the government to grant loans at 3 percent interest in order to finance industrial structural adjustment and to continue sound management of financial institutions. The exact size of the fund was closely guarded, but was believed to total approximately 1.5 trillion won, or $1.7 billion.[58] In January 1986, the economic cabinet was reshuffled. Kim Mahn Je, a proponent of more expansionist policies, took command of the Economic Planning Board. The slogans of economic stability gradually gave way to an emphasis on growth and employment.[59]

Summary: Institutions and Stabilization

By all accounts, the Korean stabilization effort was a success.[60] Austerity measures curbed inflation and reestablished historically strong

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are three times those of the United States (1.1). See Korean Exchange Bank, *Monthly Review* 18 (May 1984), 2-4; *Far Eastern Economic Review*, July 19, 1984, p. 44.

[55] *Far Eastern Economic Review*, May 16, 1985, p. 92.

[56] *Hankuk Ilbo*, February 23 and 26, 1985; *Business Korea*, August and September 1985.

[57] For example, when the international contractor, Keangnam Enterprises, faced bankruptcy, the Korea Exchange Bank provided loans to Daewoo to salvage the company.

[58] *Hankuk Ilbo*, March 25, 1987; *Chosun Ilbo*, May 12, 1986.

[59] See, for example, *Far Eastern Economic Review*, October 24 and November 14, 1985, and April 24, 1986; Laxmi Nakarmi, "Deputy Prime Minister Kim: Theory into Practice," *Business Korea*, February 1986, pp. 14-17.

[60] See, for example, Vijan Aghedli and Marquez Ruerte, *A Case of Successful Adjustment: The Korean Experience During 1980-1984* (Washington, DC: International Monetary Fund

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growth rates. Increases in the consumer price index averaged 22.7 percent between 1979 and 1981, but only 3.6 percent between 1982 and 1987. A portion of this success may be attributed to favorable international conditions—particularly the declining costs of imported raw materials.[61] But evidence of noninflationary recovery was noticeable before the advent of the "three blessings": lower oil prices and interest rates and a currency that depreciated sharply both against the rising yen and the falling dollar.

These policy successes give some confirmation to an institutional approach to Korea's economic performance. The Chun government exhibited basic continuities with the authoritarian Yushin period; as a result, it was able to impose short-term adjustment costs on farmers, the bureaucracy, and labor. Its success in changing the government's relations with large business was more mixed. Large firms occupied an extremely powerful position in the economy, and their demands proved difficult to ignore. The very control over credit that had previously appeared as a component of the government's "strength" in pursuing its industrial policy objectives now became a liability. Past intervention created commitments that proved difficult to break.[62] Not surprisingly, the costs of adjustment were more easily imposed on the weak than on the strong.

Institutional Change and Economic Policy: Understanding Democratic Transitions

The institutionalist perspective on economic policy emphasizes the organizational features of the state that affect the ability of social groups and political elites to realize their objectives. The state is conceived as a field of organizations, rules, and norms that sets limits on what political actors can achieve. Institutionalism is a theory of the *constraints* on political behavior. Periods of institutional change provide tests of institutionalist claims. During democratic transitions, executive autonomy declines as the legislature becomes more active and parties and interest groups take advantage of new opportunities for organization. One would thus expect economic policy during transitions to be more responsive to social demands. Although political elites may retain recourse to hard-line or coercive policy options, exploitation of these capabilities cuts against

Occasional Paper No. 39, 1985); Victorio Corbo and Sang Woo Nam, "Controlling Inflation: Korea's Recent Experience" (Seoul: KDI Working Paper No. 8608, 1986).

[61] *Ibid.*

[62] G. John Ikenberry, "The Irony of State Strength: Comparative Responses to the Oil Shocks in the 1970s," *International Organization* 40 (Winter 1986), 105-37.

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competing political demands for accommodation that often stem from within the ruling circle itself.[63]

Although they were successful in economic terms, the stabilization and structural adjustment efforts of the technocratic reformers did little to increase political support for the government. The general election of February 1985 was a crucial test for the military government in this regard. The ruling Democratic Justice Party (DJP) retained its control of the National Assembly because of a peculiar system of proportional representation, but received only 35.3 percent of the popular vote.[64] The upset reflected popular dissatisfaction with Chun's military dictatorship and the slow pace of political reform—particularly the government's unwillingness to negotiate changes in the constitution that would allow the direct election of the president. Unexpectedly, however, economic policy also became a key election issue.[65] The opposition appealed to those who had been disadvantaged by the stabilization and structural adjustment measures, and emphasized the government's close links with big business and its neglect of workers, farmers, "the masses," and the less developed regions of the country. The liberalizing economic reforms of the technocrats were depicted as a capitulation to foreign pressures.

The election revealed a typical pattern of support for the government in the countryside and opposition in the cities, but subsidy cuts, the liberalization of agriculture imports, and growing farm debt provided new opportunities for the opposition in the rural areas. As a group, students had the most staunchly antigovernment attitude; they played a leading role in organizing demonstrations both before and after the elections. Their interests focused primarily on political issues, but also included an increasingly radical critique of Korea's economic development.[66] Among

[63] Barry Ames argues that authoritarian regimes use fiscal policy in ways similar to democratic regimes. See Ames, *Political Survival: Politicians and Public Policy in Latin America* (Berkeley: University of California Press, 1987). The hardline-softline conflict is a central theme of Alfred Stepan, *Rethinking Military Politics* (Princeton: Princeton University Press, 1988), 4.

[64] B. C. Koh, "The 1985 Parliamentary Election in South Korea," *Asian Survey* 25 (September 1985), 883-97.

[65] Public opinion data in Korea are notoriously weak, but from September 15-19, 1986, the pro-government *Kyunghyang Daily* conducted a nationwide survey. The results were so unfavorable to the government that the poll was suppressed. A copy was later obtained and published in *The People's Korea*, February 21, 1987, pp. 6-8. The poll showed a surprising lack of confidence in economic management; for example, 86.5 percent of respondents believed the economy to be in crisis, with only 10.1 percent optimistic. For overviews of the electoral issues, see *Hankuk Ilbo*, February 9, 1985; *Far Eastern Economic Review*, February 6, 1985.

[66] On the ideological views of the students, see Hyun Chae Park and Hee Yon Cho, eds., *Hankuk Sahoi Gusingche Ronjaeng* [Controversies over the Social Formation], vols. 1 and 2 (Seoul: Juksan, 1989).

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occupational categories, professionals showed the strongest support for the opposition. In one of the few contemporary polls, the "upper," "upper middle" and "middle" classes also tended to see the economic crisis and debt problems as more serious than did the "low middle" and "lower" classes.[67] The stabilization measures, the difficulty in absorbing workers returning from the Middle East, and the increase in new college graduates following the expansion of higher education in the 1970s all created political problems for the government.[68]

There is evidence that the government adjusted its economic policies to blunt challenges from the opposition both before and after the 1985 election, seeking to reconstruct a political coalition that had been sundered by stabilization and structural adjustment measures. When it loosened credit policy to counteract the slowdown in 1984, it explicitly directed new support toward small and medium-sized firms as well as farmers and fishermen. Preferential finance for these enterprises increased over 50 percent between 1982 and 1985; total credit grew only 35 percent during that time.[69]

The shock of the election generated new pressures on the executive from politicians of the ruling party in anticipation of the National Assembly elections promised for 1987 or 1988. Farm policy, for example, was structured to appeal to the traditional base of support of the ruling party.[70] The Grain Management Fund's freeze on price increases was lifted in 1984, allowing an additional 3 percent in that year, 5 percent in 1985, and 6 percent in 1986. Because inflation had fallen to under 3 percent by 1984, these increases were real. In March 1987, the government undertook a massive debt relief operation for farmers who swapped farm debts carrying high interest rates for preferential loans from public financing sources. This measure was initiated by members of the ruling party in cooperation with the Ministry of Agriculture and Fisheries—and over the strenuous opposition of the Economic Planning Board, the Ministry of Finance, and the Bank of Korea. The insulation of the bureaucracy from political constraints decreased as the government used farm policy to reconstruct the political coalition of the Park era.

Their strong showing in the 1985 election encouraged opposition forces to organize around the issue of constitutional reform.[71] Though

[67] *The People's Korea* (fn. 65), 7.

[68] *Dongah Ilbo*, January 1, 1986; Maeng Ho Choi, "Repo: Silup, Daechak i upda" [Report: Unemployment, No Options], *Shin Dong Ah*, December 1985, 449-59.

[69] EPB (fn. 20), 34-35; *Chosun Ilbo*, May 30, 1985.

[70] *Chosun Ilbo*, October 17, 1986; *Hankuk Ilbo*, March 17, 1987.

[71] The best account of the political events leading up to the presidential elections of December 1987 is James M. West and Edward J. Baker, "The 1987 Constitutional Reforms in South Korea: Electoral Processes and Judicial Independence," *Harvard Human Rights Yearbook* 1 (Spring 1988), 135-77.

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there were periodic signals of a political thaw, the government's response to the opposition was repressive. Little progress was made on negotiating constitutional revisions, and on April 13, 1987, President Chun "suspended" the debate, sparking a wave of nationwide antigovernment protests. These protests split the political elite. Hardliners in the ruling party advocated a declaration of martial law and military intervention, while the softliners demanded concessions from the government. In June, chairman (and ex-general) Roh Tae-Woo was officially nominated as the ruling party's presidential candidate. This triggered the largest, most widespread, and prolonged demonstrations to date, with the participation and sympathy from the urban middle class. On June 29, Roh made a declaration of political reform that included not only direct presidential elections, but guarantees of human rights, a free press, autonomy for local governments and universities, and freedom of political organization. Moreover, he threatened to resign his chairmanship of the ruling party if Chun refused to support his proposals. On July 1, Chun agreed.

Following Roh's victory in the presidential elections of December 1987, and the National Assembly elections of April 1988, the pressure of social groups on the government became more direct. New farm groups formed, and street protests by farmers increased dramatically, focusing on the issues of farm debt, taxes, and import liberalization in agriculture. In a classic example of the collective-action dilemmas that emerge under partisan competition, rice-pricing policy became subject to bidding among the political parties who vied for farm support. As a result, increases in the price of rice in 1987 and 1988 far outstripped the EPB's initial proposals.[72]

Labor's response to the new political climate was similarly swift. In 1981 and 1982, labor disputes had dropped sharply under the new labor laws. In 1983, this trend was reversed: labor actions took on a more political cast, due in part to the penetration of the labor movement by student radicals.[73] In early July 1987, workers at a number of key big-business groups engaged in strikes that gradually spread through the economy. In the two months from July 4 to September 4, there were more labor disputes than had taken place in the previous ten years.[74] Labor's demands centered on wage increases and improved conditions, but also raised more fundamental political issues, including a reduction in government intervention in union affairs, greater freedom to organize independent unions, and changes in the structure of dispute settlements.

[72] *Hankuk Ilbo*, December 10, 1988.

[73] Oi Boong Hwang, "Repo: Haksaeng ui Nodong Undong Hyungjang" [Field Report on Students' Labor Movement], *Shin Dong Ah*, June 1985, pp. 466-85.

[74] *Chosun Ilbo*, September 9, 1987.

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While the FKTU and various industrial unions were trying to regain confidence and influence by demanding reforms in the labor law, independent labor associations formed on a regional basis to defy the labor establishment as well as the government. These associations, formed by the Movement Circle (*Undonggwon*),[75] played a leading role in organizing at the company-union level and in mobilizing a broader network of antigovernment elements. In the two months following Roh Tae-Woo's announcement, over one thousand new company-level unions were formed.[76]

In the past, the government had played a central role in resolving labor disputes. Over the course of 1986 and 1987, however, the ruling party introduced amendments into the labor law that guaranteed collective bargaining, collective action, and the freedom to form new unions. In 1987, firms were informed that they would have to solve disputes on their own.

South Korea's strategy of export-led growth was built around a close partnership between business and government, and exclusionary policies toward labor.[77] The government's new stance toward labor was thus doubly significant, since it also signaled a shift in its attitude toward big business. However, the management of financially troubled firms remained a constraint on the regime's freedom of maneuver, as it had during the stabilization period. In 1986, the government arranged for the merger of forty-nine large firms that were in difficulties; only three of them were allowed to go bankrupt.[78] Among the incentives extended to facilitate restructuring were the suspension of loan repayments, additional loans to "normalize" operations, and special tax incentives for the new parent-companies. The cost of the new policy was borne by the newly privatized commercial banks and ultimately by the Central Bank, which was forced to support the banks' balance sheets through infusions of cheap credit.

Despite these interventions, the government sought to distance itself politically from past patterns of support for big business. Roh Tae-Woo's campaign platform had converged with the opposition's in calling for the elimination of policy loans, for progressive taxation of large landholders (including the largest firms), and for a general reduction of preferential treatment for big business.[79] The remarks of a floor leader of the ruling party are worth quoting:

[75] *Undonggwon*, or the Movement Circle, refers to a coalition of radical students, intellectuals, and labor and church activists organized under the slogan of "people, nation, and democracy." The Circle constitutes the heart of the radical opposition movement in Korea.

[76] *Dongah Ilbo*, September 29, 1987.

[77] See esp. Deyo (fn. 2).

[78] *Hankuk Ilbo*, March 25, 1987.

[79] The economic policies of the presidential candidates are outlined in Jae Wan Choi,

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> It is impossible to dissolve big business and start from scratch. We should correct past mistakes and distortions through the separation of ownership and management, redistribution of income and ... an uplifting of the lower class. We cannot take sides with the *chaebol*, and furthermore we have nothing to gain by taking the side of the *chaebol*.[80]

As one would expect, the liberalization of the political system removed certain policy options, either by limiting the government's discretionary power (as in the case of the labor laws), or simply by raising their political cost. The institutionalist view explains the growing constraint on the government's freedom of maneuver. But explaining *how* the government responded demands analysis of the distributional consequences of past policies for different social groups, and of the configuration and strategy of the opposition. The very success of stabilization created dilemmas for the regime as it sought to compete for electoral support. Challenged from the left, it revised its economic policies to appeal to farmers, labor, and small and medium-sized business while distancing itself politically, if not economically, from the *chaebol*.

Conclusion

Korea's stabilization policies of the early 1980s reveal the power of institutions. The military exploited its political autonomy in order to reduce fiscal deficits and to control labor, but the government's relationship with the private sector revealed some limitations on the range of governmental power. Structural reforms envisioned by the technocrats called for a reduction of government support for the large firms; in effect, the market would be imposed on the largest national firms. While the government's capacity to act against farmers, bureaucrats, and labor was facilitated by organizational controls that limited the power and autonomy of these groups, big business occupied a more powerful position. Because the regime pursued a policy of concentration, the weight of the largest firms in the economy increased and facilitated their organization. The very financial weakness of the *chaebol*, and of the state-owned banks to which they were indebted, gave the firms additional leverage. Large firms could credibly argue that their problems stemmed from compliance with government initiatives. There was thus an irony to the strength of the Korean state.[81] Powerful instruments of intervention,

"Nambaldoin Gyungjegongyak, Silhyunsung Hibak Hada" [Overblown Economic Promises: Feasibility Dim], *Shin Dong Ah*, January 1988, 238-45.

[80] Lee Jong Chan, former floor leader and an architect of the Fifth Republic, in *Wolgan Chosun*, January 1987, p. 155.

[81] Ikenberry (fn. 62).

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such as the control of credit, ultimately generated commitments that proved difficult to sever.

The period of political liberalization raises a number of issues concerning the relationship between democratization and the state's "strength." Democratization had three consequences for economic policy making. First, the liberalization of politics provided new channels for groups to air their grievances. Operating in a more open political context, opposition parties exploited economic issues. Second, liberalization forced a change in the government's tactics. The use of coercive instruments of adjustment carried a political cost, and conflicts emerged between the technocrats and those members of the ruling party who faced an electoral challenge. After 1985, a subtle change occurred in government policy: a more expansionist macroeconomic policy was coupled with an attempt to rebuild political support through the manipulation of policy instruments. Finally, these broad political changes meant a decline in the independence of the economic bureaucracy. Previously shielded from political criticism and executive and legislative interference, the technocrats were forced to negotiate a more politicized policy-making process.

The transition to democracy raises the larger question of the affinity between authoritarianism and rapid economic growth in the East Asian NICs. To date, the opposition has not formulated a coherent alternative to existing policies; recent economic debates reveal, however, that it is likely to be more cautious about participating in the world economy, more hostile to the penetration of transnational actors, more oriented toward the domestic market, and more concerned with equity than past regimes have been. This would indicate a growth path quite different from the one that Korea has followed up to the present.

Our analysis suggests that the pessimistic view of an inevitable trade-off between democracy and growth is exaggerated. First, authoritarian political structures are not the only way to control distributive pressures. The European model of democratic corporatism offers an alternative institutional arrangement that seems particularly well-suited to small, open economies.[82] Second, Korea's own experience suggests that "strong" institutions, although effective, are not necesssarily efficient. The excesses of the heavy-industry drive of the 1970s were partly a result of the very concentration and autonomy of the Korean political system.

The institutionalist agenda returns political science to a number of classic problems about the relationship between governmental structure

[82] Katzenstein (fn. 17).

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and policy choice. Ultimately, however, the study of institutions cannot be divorced from the play of political forces and interests; "societal" and "statist" explanations have been artificially juxtaposed. In this essay, we have attempted to show how institutions empower political elites and structure the access of social groups. Yet, without a complementary delineation of the organizational and structural capabilities or social actors, such a picture is necessarily incomplete.

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RATIONALITY AND DETERRENCE

By FRANK C. ZAGARE*

A rational deterrent cannot be based on irrational responses.
—*Richard Nixon*

MANY critics of deterrence theory rest their case against it on the inadequacy of the rational actor model.[1] Yet other students of interstate conflict, seemingly undeterred, continue to probe the subject of deterrence with models that explicitly postulate rational behavior.[2] Why?

One purpose of this essay is to suggest that since there is a critical, if frequently unappreciated, difference between the rational *actor* model and the assumption of rational *choice* sometimes taken to be synonymous with it, many of the criticisms are beside the point. A second is to show that some recent rational choice models of deterrence are, nonetheless,

* For helpful and insightful comments on an earlier version of this essay, I thank Bruce Bueno de Mesquita, Thomas Fogarty, Jacek Kugler, and Richard Ned Lebow.

[1] See, for instance, John H. Barton and Lawrence D. Weiler, eds., *International Arms Control: Issues and Agreements* (Stanford, CA: Stanford University Press, 1976); Alexander L. George and Richard Smoke, *Deterrence in American Foreign Policy* (New York: Columbia University Press, 1974); Patrick M. Morgan, *Deterrence: A Conceptual Analysis*, 2d ed. (Beverly Hills, CA: Sage, 1983); Robert Jervis, "Deterrence Theory Revisited," *World Politics* 31 (January 1979), 289-324.

[2] See, inter alia, Steven J. Brams, *Superpower Games* (New Haven, CT: Yale University Press, 1985); Steven J. Brams and D. Marc Kilgour, *Game Theory and National Security* (New York: Basil Blackwell, 1988); Bruce Bueno de Mesquita, *The War Trap* (New Haven, CT: Yale University Press, 1981); Bruce Bueno de Mesquita, "The War Trap Revisited," *American Political Science Review* 79 (March 1985), 156-73; Bruce Bueno de Mesquita and William H. Riker, "An Assessment of the Merits of Selective Nuclear Proliferation," *Journal of Conflict Resolution* 26 (June 1982), 283-306; Niall M. Fraser and Keith Hipel, *Conflict Analysis: Models and Resolution* (New York: North-Holland, 1984); David Gauthier, "Deterrence, Maximization, and Rationality," *Ethics* 94 (April 1984), 474-95; T. Clifton Morgan, "A Spatial Model of Crisis Bargaining," *International Studies Quarterly* 28 (December 1984), 407-26; James D. Morrow, "A Continuous-Outcome Expected Utility Theory of War," *Journal of Conflict Resolution* 27 (September 1985), 473-502; James D. Morrow, "A Spatial Theory of International Conflict," *American Political Science Review* 80 (December 1986), 1131-50. Robert Powell, "Crisis Bargaining, Escalation, and MAD," *American Political Science Review* 81 (September 1987), 717-35; Robert Powell, "Nuclear Brinkmanship with Two-Sided Incomplete Information," *American Political Science Review* 82 (March 1988), 156-78; R. Harrison Wagner, "Deterrence and Bargaining," *Journal of Conflict Resolution* 26 (June 1982), 329-58; R. Harrison Wagner, "The Theory of Games and the Problem of International Cooperation," *American Political Science Review* 77 (June 1983) 330-46; R. Harrison Wagner, "The Theory of Games and the Cuban Missile Crisis" (Paper presented at the Annual Meeting of the American Political Science Association, Chicago, IL, September 3-6, 1987); Frank C. Zagare, "Toward a Reformulation of the Theory of Mutual Deterrence," *International Studies Quarterly* 29 (June 1985), 155–69; and Frank C. Zagare, *The Dynamics of Deterrence* (Chicago: University of Chicago Press, 1987).

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deficient in their application of the rationality postulate. Along the way, the theoretical implications of these points will be highlighted.

Procedural Rationality and the Case against the Rational Actor Model

In a well-known critique of contemporary deterrence theory, Patrick Morgan points out that "classic criticisms of deterrence theory turn on the charge that governments simply lack the necessary rationality to make it work, that they are particularly subject to irrationality in times of intense crisis or actual attack."[3] Implicit in this statement is a view of rationality which Simon calls *procedural* rationality.[4] In brief, theorists who subscribe to this view tend to equate rationality with omniscience. As described by Verba in an oft-cited article, a rational actor is one who makes a "cool and clearheaded ends-means calculation" after considering *all* possible courses of action and carefully weighing the pros and cons of each of them.[5] Obviously, such a decision requires that an actor have an accurate perception of the implications of all his options and a well-defined set of preferences concerning them. It also requires that he accurately assess the preferences of other relevant actors and their likely response to his tactical choices, that is, to his concessions or to his threats. In the view of the proceduralist, misperceptions—or other deficiencies of human cognition—and rational decision making are mutually exclusive. A rational agent—if one exists—will isolate himself from these hindrances. Moreover, he will also factor out of his decisional calculus other extraneous determinants stemming from psychological predispositions or emotional and affective deficiencies.[6]

In the context of national security issues, this view of rationality is articulated most explicitly by Allison in his classic study of the Cuban missile crisis.[7] Allison's critique of the rational actor model has had a profound impact on the study of international politics, and rightfully so.

[3] Morgan (fn. 1), 13.

[4] Herbert A. Simon, "From Substantive to Procedural Rationality," in S. J. Latsis, ed., *Method and Appraisal in Economics* (Cambridge: Cambridge University Press, 1976).

[5] Sidney Verba, "Assumptions of Rationality and Non-rationality in Models of the International System," in Klaus Knorr and Sidney Verba, eds., *The International System: Theoretical Essays* (Princeton, NJ: Princeton University Press, 1961), 95.

[6] Joseph de Rivera, *The Psychological Dimension of Foreign Policy* (Columbus, OH: Merrill, 1968); Richard Ned Lebow, *Between Peace and War: The Nature of International Crisis* (Baltimore, MD: The Johns Hopkins University Press, 1981); and John Steinbruner, "Beyond Rational Deterrence: The Struggle for New Conceptions," *World Politics* 28 (January 1976), 223-45.

[7] Graham T. Allison, *Essence of Decision: Explaining the Cuban Missile Crisis* (Boston: Little, Brown, 1971).

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According to Mandel, "most scholars of the field no longer believe that states always use the 'billiard ball' rational actor approach; no longer treat psychological influences as random accidents or idiosyncratic deviations; and no longer assume that the most subjective aspects of international behavior are inherently unanalyzable."[8] Given the startling conceptual reorientation of the field since the heyday of political realism and the rational actor model,[9] the question that naturally arises is what role, if any, can be served by models that make explicit use of the rationality postulate to theorize about the nature of deterrence. To answer this, I distinguish first the procedural view of rationality implicit in most criticisms of the rational actor model from the instrumentalist definition of rationality generally associated with rational choice models.

Instrumental Rationality

In contrast to those who define rationality procedurally, those who define it *instrumentally* take a more limited view of this concept. Luce and Raiffa's is perhaps the clearest and most direct definition: a rational actor is one who, when confronted with "two alternatives which give rise to outcomes, . . . will choose the one which yields the more preferred outcome."[10]

This is not a deceptively simple definition. It *is* simple. There are no hidden assumptions lurking behind it. In fact, only two axioms, associated with the logical structure of an actor's preference function, are implicit in it. For an actor to be rational in the instrumentalist sense of Luce and Raiffa, he or she must have *connected* and *transitive* preferences over the set of available outcomes.

Connectivity simply means that an actor be able to make comparisons among the outcomes in the feasible set and evaluate them in a coherent way. For example, given a choice between two alternatives, a and b, a player with connected preferences will either prefer a to b, b to a, or be indifferent to both. Clearly, the behavior of an actor whose preferences

[8] Robert Mandel, "Psychological Approaches to International Relations," in Margaret G. Hermann, ed., *Political Psychology: Contemporary Problems and Issues* (San Francisco, CA: Jossey-Bass, 1986), 251.

[9] Of course, this paradigm shift of sorts is most properly traced to the pioneering work of Richard C. Snyder, H. W. Bruck, and Burton Sapin, eds., *Foreign Policy Decision-Making: An Approach to the Study of International Politics* (New York: Free Press, 1962). For this argument see James N. Rosenau, "The Premises and Promises of Decision-Making Analysis," in James C. Charlesworth, ed., *Contemporary Political Analysis* (New York: Free Press, 1967), and B. P. White, "Decision-making Analysis," in Trevor Taylor, ed., *Approaches and Theory in International Relations* (London: Longman, 1978).

[10] Duncan R. Luce and Howard Raiffa, *Games and Decisions: Introduction and Critical Survey* (New York: Wiley, 1957), 50.

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are not connected is not amenable to analysis using a model or theory rooted in the notion of rational choice.

Transitivity implies the following: if an actor prefers alternative *a* to *b*, and *b* to *c*, then, if his preferences are transitive, he will also prefer *a* to *c*. If not, his preferences are logically incoherent and, as before, best analyzed outside a rational choice framework.

Surely these are minimal requirements for a definition of rationality. Without them, choice theory would be well-nigh impossible. In fact, *any* theory assuming purposeful action would also be impossible. More to the point, not only are these two assumptions implicit in all of the rational choice theories of deterrence so far developed, but I would submit that they are also implicit in what are sometimes seen to be incompatible theoretical constructs. For example, both of Allison's alternatives to the Rational Actor model (I), i.e., the Organizational Process model (II) and the Governmental Politics model (III) assume purposeful behavior. The organizations in Model II are said to pursue organizational goals, and the individuals in Model III are postulated to pursue political goals. For the same reasons given above, neither of these (conceptual) models could be applied without, at least implicitly, assuming that the preference functions of either the organizations or the individuals analyzed in them were connected and transitive. If these models are incompatible with one another, as Allison argues,[11] then it is simply because they postulate different units of analysis and make different assumptions about the goals these units pursue. They are not incompatible because they make fundamentally different assumptions about the underlying nature of the choices made by these units.

Nor are these assumptions either heroic or exceptional. While there may be instances of international decision makers suffering from mental illness, it is probably the case that most of them, including Hitler and Khomeini, have coherent—not laudable or even reasonable, but coherent—preference orders and are rational in the limited sense of the instrumentalist. Notice, however, that such a judgment does not rest upon an evaluation of the particulars of a decision maker's preferences. It merely assumes that these preferences are logically consistent, *whatever they may be*. Thus, while it is probably true that the context in which choices are framed may have a dramatic impact on a player's preference function,[12] rational choice models are not necessarily affected by this observation.

[11] Allison (fn. 7), 246.

[12] Amos Tversky and Daniel Kahnerman, "The Framing of Decisions and the Psychology of Choice," *Science*, 30 January 1981, 453-58.

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The next question is where do these preferences come from, and how are they defined? For the instrumentalist, they are defined subjectively by each individual decision maker.[13] Thus, in contrast to the proceduralist, the instrumentalist does not presume to offer normative evaluations of an actor's preferences, however bizarre, reprehensible, or ill-founded they may be.[14] For instance, consider a leader who prefers systematic genocide to the benign neglect of a minority population. If his actions are consistent (or are perceived by the actor to be consistent) with this obviously repugnant ordering, he is rational by the definition of the instrumentalist. The reason is manifest: as a scientist, the instrumentalist is primarily interested in theory construction, not judging the ethical, strategic, political, or moral basis of an actor's motivation.[15] How best to understand Hitler's behavior? Simply by understanding his goals. In other words, preferences are given and either actual or optimal behavior deduced. The question of what preferences and/or perceptions an actor *should* have is considered not particularly relevant for developing explanatory or predictive theories of behavior.

Can an instrumentally rational actor have preferences rooted in incomplete, imperfect, or even erroneous information? Yes. Can variables which the proceduralist would reject as illegitimate influences on policy making have an impact on an actor's preferences? Yes. Are the distortions implied by the organizational context of policy making and the imperatives of the political process consistent with this notion of rationality? Yes. Can an individual whose vision is clouded by the pressures of time and stress in a crisis still be considered rational? In the limited sense of the instrumentalist, the answer, again, is yes.

Stating this in different terms: the instrumentalists' notion of rationality is not only quite restricted, but is also not necessarily inconsistent with conceptual models such as Lebow's based upon the notion of procedural rationality.[16] In fact, when used in some ways the instrumental-

[13] Daniel Ellsberg, "The Theory and Practice of Blackmail," lecture at the Lowell Institute, Boston, MA, March 10, 1959; reprinted in Oran R. Young, ed., *Bargaining: Formal Theories of Negotiation* (Urbana, IL: University of Illinois Press, 1975), 347.

[14] It may be true, as Robert Jervis writes in "Realism, Game Theory, and Cooperation," that "by taking preferences as given, we beg ... the most important question on how they are formed" (*World Politics* 40 [April 1988], 317-49, at 324). But this does not mean that other questions are unimportant. Indeed, as I argue below, meaningful scientific progress depends upon knowing both the sources of preferences and their strategic implications. Understanding how the world works should not always be depicted as a zero-sum game between competing groups of theorists, or as an either/or choice about research foci and methods.

[15] This is not to suggest that normative questions are outside the scope of legitimate inquiry. It is simply to say that, in general, instrumentalists have used this concept for purposes that are different from, though not necessarily inconsistent with, more traditional normative concerns.

[16] Lebow (fn. 6).

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ists' definition is nothing more than a convenient tautology.[17] Instrumentalists—and proceduralists as well—use it not because it is the "correct" way of defining this term, but because the assumption of instrumental rationality is useful for constructing theories of rational or psychological choice.

The point, however, is that rational choice models, as opposed to the rational (or unitary) actor model in international politics, should not be rejected, a priori, by those who define rationality procedurally. As used by the instrumentalist, this term does not connote superhuman calculating ability, omniscience, or an Olympian view of the world, as some proceduralists have concluded.[18] The individual decision makers analyzed by rational choice theorists can be, at one and the same time, rational in the limited instrumental sense, and irrational in the sense of the proceduralist. Thus, to the extent that subjective interpretations of the world are built into the models of the instrumentalist,[19] such models could also be used to describe the behavior of decision makers suffering from cognitive closure, selective perceptions, misinformation and so on.[20] There is no necessary inconsistency between these two seemingly divergent notions of rationality.

Some Implications of the Assumption of Instrumental Rationality

Before turning to an assessment of some recent rational choice models of deterrence, it will be useful first to explore one development in noncooperative game theory which has deepened, considerably, our knowledge of instrumental rationality, namely, Selten's concept of a *perfect equilibrium*.[21] Until the development of this concept, most game theorists were of the opinion that the only universally defensible rationality requirement for players in a noncooperative game was that their strategies form a *Nash equilibrium* pair (outcome).[22] What Selten did, by way of

[17] E.g., Samuelson's theory of revealed preferences. Paul A. Samuelson, "A Note on the Pure Theory of Consumer's Behaviour," *Economica* 5 (February 1938), 61-71.

[18] E.g., Glenn H. Snyder and Paul Diesing, *Conflict Among Nations: Bargaining, Decision Making and System Structure in International Crises* (Princeton, NJ: Princeton University Press, 1977), chap. 5.

[19] See, for example, Bueno de Mesquita's expected utility model developed in *The War Trap* (fn. 2) and "The War Trap Revisited" (fn. 2), which postulates decision makers who, by way of their risk functions, distort objective reality.

[20] See Arthur A. Stein, "When Misperception Matters," *World Politics* 34 (July 1982), 505-26, for an example of such a merger.

[21] Reinhard Selten, "A Re-examination of the Perfectness Concept for Equilibrium Points in Extensive Games," *International Journal of Game Theory* 4, No. 1 (1975), 25-55.

[22] John Nash, "Non-cooperative Games," *Annals of Mathematics* 54 (September 1951), 286-95.

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counterexample, was to demonstrate that only perfect Nash equilibria could be defended in terms of the rationality principle.

Backtracking for a moment, let us define a few terms: a *noncooperative* game is one in which the players are either unable to communicate with one another or, because of the lack of an enforcement mechanism, to commit themselves to any particular strategy. It is easy to see why noncooperative game theory has held a particular attraction for theorists of interstate conflict. In the absence of an overarching authority in the interstate system to enforce commitments or agreements, great power politics clearly meets the definitional requirements of a noncooperative game.

At the heart of the theory of noncooperative games lies Nash's equilibrium concept. A Nash equilibrium is an outcome from which neither player can gain, immediately, by switching to another strategy (outcome). The reason for the centrality of this concept in noncooperative game theory is apparent: since Nash equilibria are associated with instrumentally rational choices by both players, they are, in essence, self-enforcing outcomes. Hence, in an environment which lacks an enforcement agent, only Nash equilibria are rational and one would expect that only these outcomes would be selected by rational players. All outcomes which do not meet the Nash criteria involve irrational behavior since at least one player has an incentive to switch his strategy to induce a more preferred outcome.[23]

To illustrate these concepts, consider Figure 1, a game originally developed by Harsanyi.[24] In this game, there are two players, A (row) and B (column). Each player has two strategies: to either cooperate (C) or not to cooperate (D) with the other. These choices give rise to four outcomes. In Figure 1, the outcomes are represented by an ordered pair representing the payoff to A and B, respectively. The outcomes are ranked from best to worst, with the highest ranked outcome indicated by the largest integer, the next-highest outcome by the next-largest integer, and so on.

There are two Nash equilibria in Figure 1, each indicated by an asterisk. Outcome (2,2) is in equilibrium since each player will do worse by switching, unilaterally, to another strategy and inducing another out-

[23] This is why a game theorist would object to Karl W. Deutsch's suggestion that *each* player in a Chicken game choose his cooperative (C) strategy. Since the resulting outcome (3,3) is not an equilibrium outcome, it is inconsistent with the instrumentalists' definition of rationality. See Deutsch, *The Analysis of International Relations*, 3d ed. (Englewood Cliffs, NJ: Prentice-Hall, 1988), 149-50.

[24] John C. Harsanyi, "Advances in Understanding Rational Behavior," in R. E. Butts and J. Hintikka, eds., *Foundational Problems in the Special Sciences* (Dordrecht, Holland: D. Reidel, 1977).

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		B: Cooperate (C)	B: Not Cooperate (D)
A	Cooperate (C)	(1,3)*	(1,3)
	Not Cooperate (D)	(0,0)	(2,2)*

FIGURE 1
HARSANYI'S GAME

* = Nash equilibrium

come. Specifically, were A to switch from his (D) strategy, which supports (2,2), to his (C) strategy, which would induce outcome (1,3), his payoff would go from "2"—his best—to "1"—his next best. And if B were to switch to her (C) strategy, her payoff would go from "2"—her next best—to "0"—her worst. Thus, since neither player benefits by switching unilaterally to another strategy, (2,2) is a Nash equilibrium. For similar reasons, the (1,3) outcome marked with an asterisk is also a Nash equilibrium. By contrast, neither of the other outcomes is stable in the sense of Nash.

Although there are two Nash equilibria in this game, they are not equally defensible as outcomes rational players would select. Specifically, since (2,2) is the product of a dominant strategy[25] of B, and the best response to this strategy by A, compelling reasons exist to consider this outcome, and not the other equilibrium, (1,3), as the solution to this game.

One might object, however, by arguing that B could do better. Could not B threaten to choose her (C) strategy if A selects (D), thereby inducing A to choose (C) and bringing about B's best outcome? No, because the equilibrium at (1,3) is not perfect, that is, because it involves both "irrational behavior and irrational expectations by the players about each other's behavior."[26] To see why, consider the game-tree representation of this game given in Figure 2.

When the game of Figure 1 is represented in extensive or game-tree

[25] A dominant strategy provides at least as good an outcome for a player as any other, no matter what strategy the other player(s) in the game select. For a further discussion of this and related concepts, see Frank C. Zagare, *Game Theory: Concepts and Applications* (Beverly Hills, CA: Sage, 1984).

[26] Harsanyi (fn. 24), 332.

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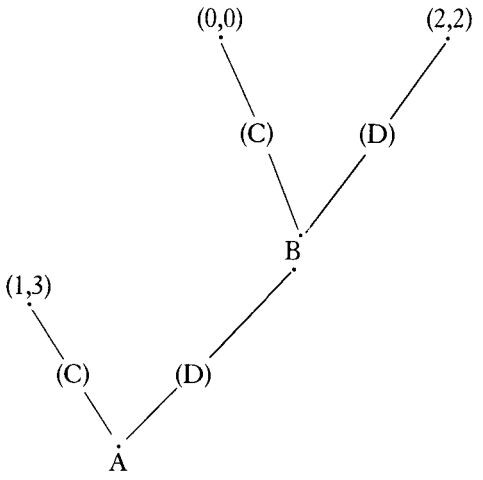

FIGURE 2
GAME-TREE REPRESENTATION OF HARSANYI'S GAME

form, it is easy to see why (1,3) can be eliminated as an outcome (instrumentally) rational players would select. Consider the calculus of A at the first node of this tree. A can either select (C) and induce (1,3), his second-best outcome, or (D), which can result in either his best or worst outcome. Clearly, he should choose (C) if he expects B to also select (C) since the choice of (D) would then result in his worst outcome. Conversely, he should select (D) if he expects B to select (D) since this induces his best outcome at (2,2). The question is: what should A expect B to do?

If A assumes that B is rational, he should expect B to select (D), since (D) is at least as good for B as (C), and sometimes better, no matter what A does. To expect B to carry out her threat to choose (C) if A chooses (D) is to assume that B is irrational. And for B to expect A to select (C) is to assume that B harbors irrational expectations about A. This is why (1,3) is not perfect, that is, an equilibrium rational players would select.

Still, one might object that B could "irrevocably commit" herself to (C), leaving A no choice. Might not such a commitment change the answer? As will be seen, the response to this question has important implications for the logical coherency of what Achen and Snidal call "rational deterrence theory."[27] I shall provide an answer in due course.

[27] Christopher H. Achen and Duncan Snidal, "Rational Deterrence Theory and Comparative Case Studies," *World Politics* 41 (January 1989), 143-69.

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Rationality and Deterrence

Previously I suggested that a widespread misunderstanding of the instrumentalists' view of rationality exists among a large number of political scientists. As a consequence of this misunderstanding, a totally counterproductive and avoidable schism between rational choice theorists and scholars who define rationality procedurally has prevented a meaningful dialogue between them.[28] To be sure, the proceduralist's view of rationality has predisposed him to develop a brand of theory that looks and feels very different from the theory produced by scholars who assume only instrumental rationality. The wise instrumentalist, however, would be ill-advised to ignore this strand of research since rational choice models are not only potentially consistent with models or theories stressing individual-level variables, but also presuppose them. In other words, one can interpret the work of micro-level theorists as exploring the causal field of cognitions and affectations culminating in preference functions and the perception thereof. Similarly, one can interpret the work of the rational choice theorist as exploring the strategic consequences of various sets of real or perceived preference vectors. Putting this in still another way, to fully flesh out a rational choice model, a theory of preference formation is required. And, as many proceduralists implicitly acknowledge, to completely understand the consequences of perceptions and misperceptions, a theory of strategic interaction, like game theory, is needed. Thus, not only are these two definitions of rationality consistent with one another, but the theories that flow from them are potentially synergistic.[29]

Merely recognizing this potential compatibility, however, will not make the task of theoretical integration easier. One reason is that, as Jervis points out, a parsimonious and coherent theory of preference formation based on micro-level variables does not yet exist.[30] An equally important reason, though, is that deterrence theory itself is not yet fully and consistently specified.[31] I will now explain why this, unfortunately, is so.

[28] The irony of this misunderstanding is hard to miss.

[29] George W. Downs, "The Rational Deterrence Debate," *World Politics* 41 (January 1989), 225-37.

[30] Robert Jervis, "Perceiving and Coping with Threat," in Robert Jervis, Richard Ned Lebow, and Janice Gross Stein, eds., *Psychology and Deterrence* (Baltimore, MD: The Johns Hopkins University Press, 1985), 33.

[31] Christopher H. Achen, "A Darwinian View of Deterrence," in Jacek Kugler and Frank C. Zagare, eds., *Exploring the Stability of Deterrence* (Denver: University of Denver School of International Studies, 1987); Zagare (fn. 2, 1987). This is why Robert Jervis, "Introduction:

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As almost everyone who has written about deterrence has pointed out, the underlying ideas behind this concept are not new. But deterrence as an important strategic concept only came into its own after the bombing of Hiroshima and Nagasaki in 1945. The reason for this was straightforward. As Brodie wrote soon afterward, up to this point "the chief purpose of our military establishment has been to win wars. From now on its chief purpose must be to avert them."[32]

Although it took time for some strategists to appreciate the wisdom of Brodie's initial insight, by the mid-1950s the concept of nuclear deterrence had emerged as the first among equals in the pantheon of U.S. strategic principles. In the earliest days of the postwar period, before the era of nuclear plenty, the containment policy of the Truman administration was, by necessity, augmented by a massive buildup of conventional weapons. But the "New Look" policy of the Eisenhower administration, stressing as it did nuclear weapons delivering "more bang for the buck," changed all of this. Now the United States would deter Soviet expansionism by threatening massive retaliation if and when the status quo was violated. The huge absolute costs associated first with atomic and then thermonuclear weapons would guarantee a stable international order. And when the Soviets themselves developed a meaningful strategic nuclear capability in the early 1960s, the doctrine of Massive Retaliation evolved into the notion of Mutual Assured Destruction.

Again, the supposition was that the massive costs associated with nuclear war would deter both superpowers. The absence of a superpower war since 1945 has merely reinforced the widely shared view that nuclear deterrence constitutes an unusually robust and stable relationship. In fact, to this day, the majority of Western strategic thinkers hold that the existence of the U.S. nuclear deterrent is uniquely responsible for the stability of the international system since 1945.

The problem with this explanation, however, is that it is logically flawed. As critics of the New Look policy were quick to point out,[33] while the notion that an aggressor can be deterred by the threat of massive costs is a reasonable hypothesis, provided that the costs of inflicting

Approach and Assumptions," in Jervis, Lebow, and Stein (fn. 30), 6, correctly, finds that "many events present unexplained puzzles for standard deterrence theory." For an attempt to explain some of these inconsistencies, see Jacek Kugler and Frank C. Zagare, "The Long-term Stability of Deterrence," *International Interactions* 15, Nos. 3 and 4 (1989), 253-75.

[32] Bernard Brodie, ed., *The Absolute Weapon: Atomic Power and World Order* (New York: Harcourt Brace, 1946), 76.

[33] See, for example, William Kaufmann, "The Requirements of Deterrence," in William Kaufmann, ed., *Military Policy and National Security* (Princeton, NJ: Princeton University Press, 1956).

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the punishment flow only one way, once this relationship is symmetric, the logic of the argument breaks down.

To see this, consider now Figure 3 which summarizes, albeit at the expense of a great deal of conceptual simplification, the problem of mutual deterrence in a nuclear relationship. Underlying this figure are the following assumptions. First, each state has two broad strategic choices, to either cooperate (C) with the other by supporting the status quo, or not to cooperate (D) by seeking to overturn it. These choices give rise to four, equally broad outcomes: if each state cooperates, the status quo reigns; if one cooperates and the other does not, the state that does not gains an advantage. And if neither cooperates, conflict (read nuclear war) is implied.

Figure 3 further reflects the assumption that each side prefers an advantage to the status quo, but that each prefers the status quo to the other gaining an advantage. (As before, the outcomes are ranked from best to worst, with the higher-ranked outcomes represented by larger integers.) Finally, it mirrors the argument of many deterrence theorists that, in the nuclear age, the costs of conflict are so high that this outcome is worst for each state. The derivative game, called "Chicken," is the standard metaphor for deterrence in the nuclear age.[34]

		Nation B	
		Cooperate (C)	Not Cooperate (D)
Nation A	Cooperate (C)	Status quo (3,3)	Advantage to B (2,4)
	Not Cooperate (D)	Advantage to A (4,2)	Conflict (1,1)

Figure 3
The Paradox of Mutual Deterrence (Chicken)

[34] See, inter alia, Jervis (fn. 1), 291; Anatol Rapoport, *Strategy and Conscience* (New York: Harper and Row, 1964), 116; Raymond F. Hopkins and Richard W. Mansbach, *Structure and Process in International Politics* (New York: Harper and Row, 1973), 368-69; Steven J. Brams, *Game Theory and Politics* (New York: Free Press, 1975); Brams (fn. 2); Brams and Kilgour (fn. 2); Thomas C. Schelling, *The Strategy of Conflict* (Cambridge: Harvard University Press, 1960); and Thomas C. Schelling, *Arms and Influence* (New Haven, CT: Yale University Press, 1966).

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If the game of Chicken accurately reflects the structural and psychological conditions of nuclear deterrence, then the problem with the theory is clear: assuming instrumental rationality, deterrence should not work. Given that each player initially chooses to cooperate, i.e., chooses (C), each player also has an incentive not to cooperate, i.e., switch to (D). Neither is deterred since neither should fear retaliation by a *rational* opponent.

To see why, suppose that one state, say B, upsets the status quo by switching from its (C) strategy to its (D) strategy, thereby gaining a momentary advantage. At this point the present outcome of the game is (2,4). Now, what is the rational response of State A? A has two choices: to stay at (2,4) by continuing to cooperate, or to move to (1,1) by defecting and executing its deterrent threat. Since A (by assumption) prefers (2,4) to (1,1), it should, if it is instrumentally rational, "chicken out" and accept B's transgression. And if A can be expected not to retaliate, then B should not hesitate to upset the status quo.

By symmetry, the same argument would apply were A to move from the status quo first. Consequently, if rational actors with the ability to inflict enormous costs on each other in a second strike are assumed, then the deterrence relationship is unstable. Furthermore, the apparent faith of many strategic theorists in the stabilizing consequences of nuclear weapons would seem to be unfounded. It appears, therefore, that there is an inherent contradiction between the precepts of instrumental rationality and the intuition of many strategists about the stabilizing impact of nuclear weapons. This is one reason why Jervis asserts that "a rational strategy for the employment of nuclear weapons is a contradiction in terms."[35]

Analytically, one is left with two options: (1) reject deterrence theory as logically incoherent, as does Achen,[36] or (2) rescue the theory by solving the paradox and demonstrating that deterrence can in fact be rational.[37] Starting with Ellsberg[38] and Schelling,[39] and continuing to more recent modeling efforts, there has been a long pedigree of attempts to resolve the paradox and demonstrate that deterrence can be an instrumentally rational policy under the conditions specified above. Have these

[35] Robert Jervis, *The Illogic of American Nuclear Strategy* (Ithaca, NY: Cornell University Press, 1984), 19.

[36] Achen (fn. 31).

[37] There is actually a third option. For their part, micro-level theorists have attempted to recast the theory by placing it on a firmer psychological foundation. This, in my opinion, is constructive, but not necessarily at odds with the second alternative.

[38] Ellsberg (fn. 13).

[39] Schelling (fn. 34, 1960, 1966).

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attempts to reconcile the observed stability of the postwar era with the theoretical instability exhibited by the status quo outcome in the game of Chicken been successful? No. Though many of these efforts are rich and suggestive, they are also inadequate. Next, I explain why some recent attempts to eliminate the paradox have failed.[40]

Prominent Attempts to Resolve the Paradox of Deterrence

Underlying many of the proposals to resolve the paradox of mutual deterrence is the supposition that a player can somehow commit himself to a particular strategy. In this regard, one should distinguish two kinds of commitments. The first—a pre-commitment—is made to a strategy which is executed *before* the other player has selected his; the second—a post-commitment?—is made to a strategy which is executed *after* the other player has made a strategy choice. In the former case, it is easy to see that if a player is able to preempt the choice of the other in Chicken, the preempting player will win. By choosing (D) first, a preempting player can force his opponent to choose between his worst and next-worst outcomes. Numerous tactics for making pre-commitments have been advanced by Schelling, Ellsberg, Snyder, Jervis, Kahn, and others.[41] If nothing else, each of these efforts underscores the paradox of mutual deterrence because each is predicated upon the premise that the player choosing second, being instrumentally rational, will concede.

It is the second type of commitment, however, that is usually called upon to explain the stability of nuclear deterrence. It is easy to understand why such a contingent commitment, if believed, will deter the other side from selecting (D) first. If the other believes his opponent will respond with certainty[42] to a choice of (D) with (D) himself, his alternatives are reduced to choosing (C)—which would induce his next-best outcome—or (D)—which would induce his worst outcome. Given this choice, the other player would not rationally preempt his opponent. And if both players can commit themselves to a tit-for-tat strategy of responding to a (D) strategy with a (D) strategy, then mutual deterrence is established.

[40] For a critique of the logical foundations of the earlier theoretical literature, see Zagare (fn. 2, 1987), chap. 1.

[41] Schelling (fn. 34, 1960, 1966); Ellsberg (fn. 13); Glenn H. Snyder, "Crisis Bargaining," in Charles F. Hermann, ed., *International Crises: Insights From Behavioral Research* (New York: Free Press, 1972); Robert Jervis, "Bargaining and Bargaining Tactics," in J. Roland Pennock and John W. Chapman, eds., *Coercion*, Nomos XIV, Yearbook of the American Society for Political and Legal Philosophy (Chicago: Aldine-Atherton, 1972); Herman Kahn, *On Thermonuclear War* (Princeton, NJ: Princeton University Press, 1960).

[42] Or, as many have noted, with a "sufficiently" high probability.

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But, and this is the crux of the matter, can a rational player make such a commitment given the costs of carrying out the retaliatory threat? Gauthier argues that he can.[43] To support his contention, Gauthier constructs an expected utility model of deterrence wherein the costs of nuclear retaliation exceed the costs of capitulation, thereby making retaliation irrational or incredible. Next, he queries whether a utility maximizer can commit himself to retaliate even when retaliation is inherently incredible. He can, Gauthier claims, but only if a commitment to retaliation provides the actor with a higher expected payoff than noncommitment. Then, not surprisingly, he shows that under certain circumstances such a commitment can indeed be rational, although Gauthier is fully cognizant that the absence of these same conditions renders a retaliatory strategy irrational and deterrence unstable.

Gauthier does not argue that it is rational to form the intention to retaliate if and only if it is utility-maximizing to execute it. Rather, he argues that it is rational to execute the intention if and only if it is utility-maximizing to form it. From this it follows that since it may be rational to form the intention to execute the threat, it may also be rational to carry it out. In fact, Gauthier—with laudable consistency—asserts that if the intention has been formed, and deterrence fails, then a rational agent who intends to retaliate should do so because acting upon this intention is part of the behavior required of an expected utility maximizer.

Gauthier's contention that a utility-maximizing agent may rationally retaliate in the case of a deterrence failure sets his argument apart from a similar one advanced by Brams and Kilgour who recognize that, if deterrence fails, it will always be irrational to retaliate.[44] Other than this, however, Brams and Kilgour's work is similar in spirit, though not in detail, to Gauthier's. They begin with an underlying model of deterrence based upon the structure of Chicken, but produce a qualitatively different game by permitting the players to commit themselves to quantitative levels of preemption and retaliation strategies. Given these assumptions, they show that a deterrence equilibrium can emerge in the game they construct, along with two other equilibria, each of which involves preemption by one player. It is precisely for this reason that Brams and Kilgour conclude that deterrence can constitute a rational and stable relationship.

There are, however, two problems with accepting this conclusion. First, since the stability of deterrence in either Gauthier's or Brams and Kilgour's model depends upon each player's commitment to the (pres-

[43] Gauthier (fn. 2).

[44] Brams and Kilgour (fn. 2).

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ently) irrational should deterrence fail, each resolution of the paradox fails to satisfy Selten's perfectness criterion. This raises the question of why either player should believe that his opponent is actually committed to retaliation. If it is (at least momentarily) irrational to retaliate in the event of a breakdown of deterrence, one can only be deterred if one believes that one's opponent is, or will be, instrumentally (and procedurally) irrational after an attack. But if a player is deterred because he believes his opponent will retaliate irrationally, how can he simultaneously defend a policy predicated on the assumption that the same opponent, in being deterred, will be perfectly rational? Or put differently, why manipulate the cost function of an opponent by threatening massive levels of destruction when the overall stability of the relationship can only be explained if each player, at some point, is assumed to be willing to completely disregard these costs and act irrationally? In still other words, a theory of deterrence that explicitly rejects the perfectness criterion is a contradiction in terms. In effect it explains deterrence stability by assuming, concurrently, that a player is rational (when he is deterred) and irrational (when he is deterring his opponent). Such an intellectual sleight of hand is known as having it both ways.

Also problematic is the assumption that players are able to commit themselves to retaliate. Recall, however, that such commitments are not permitted in noncooperative game theory and that the paradox of deterrence rests upon the inability of the players to commit themselves to any particular strategy. Thus, these two resolutions solve the paradox by assuming away the very source of the difficulty.

At this point one might respond "so what?" In the real world the predefined rules of game theory are not inviolate. Granted. Let us accept this premise for a moment. Let us assume a world in which such commitments are possible, or to use Schelling's phrase, a world where " 'cross my heart' is universally recognized as absolutely binding."[45]

It is clear that in such a world there would be no security dilemma. To see why, assume that the players are able to commit themselves to a particular strategy in the deterrence game of Figure 3 (Chicken). Given this assumption, each player could simply agree to choose (C) and maintain the status quo. In so doing, each player would implicitly agree to forgo the individual incentive he has to upset the status quo. There would be no problem with this agreement since, by assumption, it is strictly enforceable. Thus, if strategy commitments are permitted, there is no paradox.

[45] Schelling (fn. 4, 1960), 26.

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Still, many deterrence theorists would instinctively reject any proposal to stabilize a deterrence relationship which depended upon an opponent forgoing his interests. Such proposals would be rejected as utopian or idealistic. A fundamental principle of political realism, of which deterrence theory is an intellectual descendant, is that states are self-interested power maximizers. But it is precisely this premise that Gauthier and Brams and Kilgour use to explain deterrence stability. Putting this another way, it is simply inconsistent to assume that states will *not* forgo individual benefits and, at the same time, hold that the stability of deterrence rests upon the willingness of each state to carry out a threat which is not only instrumentally irrational, but also incompatible with the proposition that states seek, first, self-preservation and second, power maximization.

In sum, either states can make commitments or they cannot. If they cannot, then the arguments of Gauthier and Brams and Kilgour are not germane. And if commitments are permitted, then one cannot reject, a priori, other proposed solutions to international security as hopelessly utopian and remain logically consistent at the same time.[46]

Recognizing this, Powell has advanced a different line of reasoning to explain the rationality of deterrence.[47] Like others before him, Powell begins with an underlying Chicken model which is transformed, via assumption, into a sequential game in which the players must decide whether to escalate or (by submitting) not escalate, or to attack. If a player chooses not to escalate or attack, the game ends. If escalation is chosen, the second player is faced with similar choices. The four possible outcomes are the same as those in Chicken. If the player choosing first does not escalate or attack, the status quo prevails. If one player escalates and the other does not, the escalating player wins. If either player attacks, the game ends in disaster. And if both players escalate, the game continues until one player submits or until the game gets out of control and culminates in disaster. Powell assumes that by choosing to escalate, a player unleashes an autonomous risk, beyond his control, of disaster. Thus, his model captures well the spirit of the view of a nuclear crisis as a "competition in risk taking."[48]

[46] Gauthier (fn. 2), 494, to his credit, maintains logical consistency by admitting other possible commitment strategies. "Rational nations," he writes, "recognizing the need to seek peace and follow it given the costs of war, can unilaterally renounce the first use of nuclear weapons and thereby end all strike policies." But if this prescription strikes the reader as hopelessly naive, then so should the prescriptions of deterrence theory. Each rests upon self-abnegating choices. Brams and Kilgour assume the same when they allow each player to commit, albeit probabilistically, to a level of nonpreemption.

[47] Powell (fn. 2, 1987).

[48] Powell's model thereby provides a formalization of Schelling's "strategy-that-leaves-something-to-chance" (fn. 34, 1960).

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Given these assumptions, Powell shows that the existence of a crisis equilibrium, meaning a stable outcome that arises after a challenge by one of the players and resistance by the other, depends on incomplete information, that is, each player's lack of information about the (cardinal) utility function of his opponent.[49] Moreover, concerning the purposes of this essay, he demonstrates that, under certain conditions, no challenge will be made and, hence, deterrence is stable. This suggests that even if each of two states knows the other prefers capitulation to disaster, neither would issue a challenge, provided that the resolve of each player to resist a challenge by the other passes a certain threshold. Interestingly, Powell's model reveals that when deterrence breaks down the connection between a state's resolve and its emergence as the victor in a crisis does not always depend upon a greater willingness to risk war.

One might think that this puts the issue to rest. Even in a world in which mutual defection is the worst of all possible outcomes, a rational player can choose *not* to challenge the other because each can obtain a higher expected payoff by following this course. Moreover, while the threat to unleash disaster is not seen to be credible, the threat to escalate and risk war satisfies the rationality, and hence, credibility (i.e., perfectness) criterion. Thus, Powell's model would seem to explain the stability of deterrence in the nuclear age. Each superpower may have been deterred from attacking the other because it feared that the other would, by resisting, unleash a process that would escalate and get out of control.

The problem with this conclusion, however, lies in the nature of the assumptions necessary to generate it. First, note that Powell assumes the players know the ordinal, though not the cardinal, valuation of each other's payoffs. Also note that the deductions rest upon the supposition that the choice of "attack" by one player *always* results in mutual disaster. At the highest rung of the escalation ladder, therefore, each player's threat to retaliate is afforded perfect credibility, even though it is instrumentally irrational to carry out. Thus it is not surprising that none of the equilibrium strategies identified by Powell involve a direct attack by one player against the other. Such a possibility is eliminated by assumption. But it is precisely this assumption that has been questioned by those who argue that deterrence could fail should a window of vulnerability open and tempt one side to launch a limited first strike, thereby creating and then exploiting a nuclear asymmetry.[50] Or put in another way, at the strategic level, Powell's model postulates rather than derives stability.

[49] When information is complete, deterrence is never stable. The player with the highest "effective" resolve simply escalates and wins. A similar conclusion is found in Zagare (fn. 2, 1987), 53-54.

[50] Colin S. Gray, "Nuclear Strategy: The Case for a Theory of Victory," *International*

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Leaving this problem aside for the moment, the next question is whether or not deterrence can emerge at some lower level during a crisis interaction in which at least one side has challenged the status quo and the other has resisted the incursion. Or put differently, given the overall stability at the highest level of general strategic deterrence, why doesn't one side or the other simply escalate to the penultimate stage of the game since, by assumption, each player is deterred in the next and last stage of the game?[51] The answer suggested by Powell's model is that such an escalatory process would not occur—under specified conditions—because of the fear on each side that the other might do something to cause the process to get out of control. But why should either player fear that his opponent would unleash a process which would lead down the slippery slope toward a general nuclear war? Given the payoff assumptions noted above, if an opponent is (instrumentally) rational, such a fear would appear to be unfounded. As Maxwell correctly points out, "if the supposition that neither side believes the other would deliberately initiate nuclear war is accepted . . . neither side would have any reason to believe that there was a 'danger of things getting out of hand.' "[52]

Powell's answer is that such a process would not be selected by either player but by a third player, Nature, who, without a stake in the game, would impose the sanction probabilistically. Thus, in this model, crisis stability depends not only upon the stipulation of an irrational response at the highest rung of the escalation ladder, but also upon the assumption that, at lower levels, the irrational will occur with some positive probability. This is precisely why Achen argues that "far from leaning too heavily on rational choice postulates, 'rational deterrence theory' necessarily assumes that nations are not always self-interestedly rational."[53] The "strategy-that-leaves-something-to-chance" can, therefore, explain deterrence stability only if the rationality principle is stood on its head.[54]

Security 4 (Summer 1979), 54-87; Paul H. Nitze, "Deterring Our Deterrent," *Foreign Policy* 25 (Winter 1976-77), 195-210; Albert Wohlstetter, "The Delicate Balance of Terror," *Foreign Affairs* 37 (January 1959), 211-35.

[51] Why, for instance, don't the Soviets simply invade western Europe, given that each side's strategic arsenal is mutually deterred?

[52] Stephen Maxwell, *Rationality in Deterrence*, Adelphi Paper No. 50 (London: Institute for Strategic Studies, 1968).

[53] Achen (fn. 31), 92.

[54] Powell (fn. 2, 1987) 725, admits as much when he writes "One might object that requiring the states' strategies to be sequentially rational and then relying on Nature to impose the irrational sanction does not really solve the credibility problem. I agree with this criticism." Powell goes on to note, however, that "it is important to realize that this is not so much a criticism of the model as it is a fundamental criticism of the way that the strategy-that-leaves-something-to-chance has attempted to overcome the credibility problem. The model only exposes this weakness." I concur with this observation. One of the unrecognized advantages of formal models like Powell's is that they facilitate the exposure of underlying assumptions to careful scrutiny.

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Beyond this, however, there is yet another problem with attributing the stability of the superpower relationship during the postwar period to each side's use of the strategy-that-leaves-something-to-chance: neither superpower has ever acted this way, at least in the nuclear age. As Young finds in an empirical examination of four post-World War II crises, in such situations each side acted "to retain wide freedom of choice as long as possible and to avoid becoming boxed into an irrevocable position."[55] Thus, not only have the superpowers eschewed commitment strategies like those suggested by Gauthier or Brams and Kilgour, but they have also avoided, in actual crisis situations, those brinkmanship tactics modeled by Powell which, by forfeiting control, unleash an autonomous risk of war.

Toward a Resolution

Can deterrence theory be rescued from this theoretical trap by explaining deterrence stability and simultaneously maintaining consistency with the instrumentalist definition of rationality? A definitive answer is beyond the scope of this essay. Nevertheless, a sketch of a potential resolution is feasible.

One of Ellsberg's suggestions provides a useful starting point: if a deterring player can convince his opponent that the costs of capitulation are actually higher than the costs of executing the deterrent threat, then execution of the threat will, in fact, be rational.[56] That "second wave" deterrence theorists have found this suggestion compelling is revealed by the numerous strategems they have devised for doing just this. These tactics range from making a public commitment to retaliation, thereby raising the costs of capitulation, to linking the issue at hand to future confrontations or to such intangibles as "national honor." The most ingenious tactic, however, is Schelling's notorious suggestion that a player feign irrationality by appearing to be oblivious to the costs of confrontation. Notice, however, that the "rationality of irrationality" strategy turns upon a denial of procedural (though significantly not instrumental) rationality. The player feigning irrationality will appear to be procedurally irrational because his preferences will appear to be different than those deemed reasonable by deterrence theorists; but this player will be instrumentally rational since he is presumed to act consistently with these irrational preferences.

I have shown elsewhere that if each player is able to convince his op-

[55] Oran R. Young, *The Politics of Force: Bargaining During International Crises* (Princeton, NJ: Princeton University Press, 1968), 218.

[56] Ellsberg (fn. 13), 357.

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ponent that he actually prefers confrontation to capitulation, thereby transforming the underlying Chicken game into a game with the structural characteristics of "Prisoners' Dilemma" (see Figure 4), then a tenuous deterrence equilibrium can emerge, provided that strategy choices in this game are made both sequentially and conditionally, and that each player has an invulnerable second-strike capability.[57] Notice that this resolution of the dilemma satisfies not only the perfectness criterion but also is consistent with the prescriptions of most deterrence theorists who argue that deterrence works best when each side possesses a credible (i.e., rational) retaliatory threat.

		Nation B	
		Cooperate (C)	Not Cooperate (D)
Nation A	Cooperate (C)	(3,3)	(1,4)
	Not Cooperate (D)	(4,1)	(2,2)

Figure 4
Prisoners' Dilemma

The problem here, however, is that the resolution raises fundamental questions about the underlying determinants of preferences. As Ellsberg himself put it, "Whose reputation for honesty is so great that to wager it would make it actually *rational* to carry out such a threat? And who, with such issues at stake, would really . . . carry out a suicidal punishment?"[58] Or as de Gaulle once asked, rhetorically, "Would the United States trade New York for Paris?" The answer is that no one, including analysts or statesmen, knows. But the reason we do not know is not because we do not know whether the players will be instrumentally rational. Both proceduralists and instrumentalists assume that they will be. We do not know because we are ignorant about the conditions under which statesmen are prepared to fight or capitulate, that is, we do not as yet have an understanding of the forces which give rise to the preferences of the players. If we did, the resulting game (of complete information) would be fully specified and, as Wagner has persuasively demonstrated,

[57] Zagare (fn. 2, 1987).
[58] Ellsberg (fn. 13), 358.

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completely determined.[59] This is precisely why Schelling and most students of interstate conflict hold that the essence of a crisis is its unpredictability. When preferences are given, deterrence either works or it does not.[60] Powell's model supports this: when information is complete, there is no crisis equilibrium.

Since deterrence is undoubtedly a game of incomplete information, the critical question becomes whether or not a deterrence equilibrium can emerge under these conditions. Elsewhere, Kilgour and I have examined just such a game and—not surprisingly—have discovered that it can.[61] In formulating this model, we assume that each player is uncertain about his opponent's preferences should he unilaterally attempt to alter the status quo. In turn, uncertainty about the preferences of one's opponent leads to uncertainty about the opponent's willingness to retaliate. Since the credibility of each player's threat is identified with the probability that a player prefers retaliation to capitulation, this model maintains consistency with both the traditional strategic literature, in which credibility is usually equated with believability, and with the literature of game theory, in which credibility is usually taken to be synonymous with sequentially rational (i.e., subgame perfect equilibrium) choices.

This is clearly not the proper forum for giving the details of the abovementioned deductions. Suffice it to say that the model reveals that when the credibility of each player's threat is "sufficiently" high, deterrence is likely, though not necessarily certain, as some theorists have speculated.[62] Moreover, the existence of a deterrence equilibrium depends on each player's evaluation of the status quo and the costs of conflict. Interestingly, however, no linear relationship exists between the absolute costs of warfare and deterrence stability. In fact, the model demonstrates that in core areas where both players have inherently credible threats, increasing the costs of conflict past a certain point does little to enhance deterrence stability.

Even if one is persuaded by the synopsis of this resolution to the paradox of mutual deterrence—and one need not be—it is not the end of the story. The research question that remains unanswered, even at this

[59] Wagner (fn. 2, 1982), 343.

[60] Specifically, if each player prefers executing the deterrent threat, nuclear deterrence is stable; if neither player has a credible threat, it is not; and if only one player's retaliatory threat is credible, that player wins (Zagare [fn. 2, 1987], chap. 2).

[61] D. Marc Kilgour and Frank C. Zagare, "Uncertainty and Deterrence" (Paper delivered at the Annual Meeting of the American Political Science Association, Atlanta, GA, August 31-September 3, 1989).

[62] Michael D. Intriligator and Dagobert L. Brito, "Nuclear Proliferation and the Probability of Nuclear War," *Public Choice* 37, No. 2 (1984), 247-60; John Mueller, *Retreat From Doomsday: The Obsolescence of Major War* (New York: Basic Books, 1989).

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point, concerns the basis and origins of the perceptions, correct or not, of an opponent's willingness to execute the deterrent threat. Obviously, the answer to this question cannot be determined wholly within the confines of the rational choice paradigm but rather falls also within the competency of those theorists whose work lies in the tradition of procedural rationality. Thus we come full circle. The argument here is that deterrence theory is perfectly consistent with both the ostensively antirationalist tradition of cognitive research based on the notion of procedural rationality and the tradition of the instrumental strategist. Perhaps a more meaningful understanding of international conflict can be achieved if these two schools realize that they are involved in a nonzero-sum research quest which, at present, is characterized by cognitive closure on the part of the proceduralists and procedural irrationality on the part of rational choice deterrence theorists.

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THEORIES OF PEASANT REVOLUTION: A Critique and Contribution from the Philippines

By GARY HAWES*

I. Introduction

DURING the 1970s, there was a sustained attempt to understand peasant revolutions—provoked, in part, by the wars of Southeast Asia and a flurry of challenging, wide-ranging books on peasants, rural change, and revolution.[1] Scholars achieved partial success in specifying the conditions that generate peasant unrest and in explaining the emergence of revolutionary organizations. Because revolutionary activity by peasants remains rare, however, James Scott and others have recently drawn our attention to the everyday forms of peasant political action.[2] These analysts have made great strides in documenting the myriad and mundane forms of struggle in the countryside that remain short of armed confrontation.

Despite their rarity in the 1980s, several ongoing, rural-based Third-World revolutionary movements come to mind, such as in El Salvador

* Much of the research for this paper was conducted in the Philippines during the academic year 1986-87, and was supported by a postdoctoral grant from the Social Science Research Council and a Faculty Grant from the Horace H. Rackham Graduate School of the University of Michigan.

[1] James Scott, *The Moral Economy of the Peasant: Rebellion and Subsistence in Southeast Asia* (New Haven: Yale University Press, 1976); Samuel Popkin, *The Rational Peasant: The Political Economy of Rural Society in Vietnam* (Berkeley: University of California Press, 1979); Jeffery Paige, *Agrarian Revolution: Social Movements and Export Agriculture in the Underdeveloped World* (New York: Free Press, 1975); Joel S. Migdal, *Peasants, Politics, and Revolution: Pressures Toward Political and Social Change in the Third World* (Princeton: Princeton University Press, 1974); Jeffrey Race, *War Comes to Long An: Revolutionary Conflict in a Vietnamese Province* (Berkeley: University of California Press, 1972); Theda Skocpol, *States and Social Revolutions: A Comparative Analysis of France, Russia, and China* (Cambridge: Cambridge University Press, 1979).

[2] See the special issue, "Everyday Forms of Peasant Resistance," of the *Journal of Peasant Studies* 13 (January 1986); James Scott, *Weapons of the Weak: Everyday Forms of Peasant Resistance* (New Haven: Yale University Press, 1986); and Michael Adas, "From Avoidance to Confrontation: Peasant Protest in Precolonial and Colonial Southeast Asia," *Comparative Studies in Society and History* 23 (April 1981), 217-47.

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or Peru's *Sendero Luminoso*.[3] In the case of the Philippines, the current insurgency has captured international attention, but it has not yet received adequate scholarly treatment.[4]

The Philippine insurgency provides ample evidence that it is not going to fade away (as some had expected) with the flight of the dictator Ferdinand Marcos. The cost in human lives, while still low by revolutionary standards, is rising. According to the military, fatalities in the armed conflict reached 10.3 per day in 1987, compared to 8.8 per day in 1986.[5] Coordinating the revolutionary efforts, both armed and unarmed, is the National Democratic Front (NDF), which was formally established in 1973 with the aim of providing "an organizational framework and channel for the unity of all progressive and revolutionary forces fighting for national freedom and democracy." The NDF reports that it is active in 69 out of the nation's 73 provinces.[6] The New People's Army (NPA), the military wing of the Communist Party of the Philippines, constitutes the main armed organization within the NDF and is now estimated at twenty thousand to twenty-five thousand full-time fighters; it is reported to have forces in 63 provinces.[7]

The current situation and the prospect of heightened revolutionary conflict pose a puzzle while providing us with an opportunity. The puzzle pertains to what is unique about the Philippines, and why the revolution is growing there when revolutionary fervor in most of the rest of the Third World seems in decline. At the same time, we have the opportunity to reexamine the 1970s literature on Southeast Asia with evidence from a new case study. I will argue that the earlier theories fall short of providing a full explanation of the Philippine case. In particular, extant theory is inadequate for explaining what transforms (endemic) peasant grievances into a willingness to take the risky step of joining (as opposed to quietly supporting) a revolutionary movement.

Authors such as Paige, Scott, Race, Skocpol, and Popkin have contrib-

[3] Cynthia McClintock, "Why Peasants Rebel: The Case of Peru's Sendero Luminoso," *World Politics* 37 (October 1984), 48-84; David Scott Palmer, "Rebellion in Rural Peru," *Comparative Politics* 18 (January 1986), 127-46.

[4] Earlier peasant uprisings, millenarian movements, and rebellions have been analyzed in David Sturtevant, *Popular Uprisings in the Philippines, 1840-1940* (Ithaca, NY: Cornell University Press, 1976); Reynaldo Ileto, *Pasyon and Revolution: Popular Movements in the Philippines 1840-1910* (Quezon City, Philippines: Ateneo de Manila University Press, 1979); Benedict Kerkvliet, *The Huk Rebellion: A Case Study of Peasant Revolt in the Philippines* (Berkeley: University of California Press, 1977); and Eduardo Lachica, *Huk: Philippine Agrarian Society in Revolt* (Manila: Solidaridad Publishing 1971).

[5] *Manila Chronicle*, December 30, 1987, p. 2.

[6] National Democratic Front brochure (n.p., n.d., [1986?]).

[7] "Brief Review of the History of the Communist Party of the Philippines on the Occasion of the 20th Anniversary of Its Reestablishment," *Ang Bayan* 20 (December 1988), 11.

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uted much that is of value, but are too narrowly focused: some studies are concerned primarily with the conditions from which revolutionary movements emerge, while others concentrate principally on the transformation of revolutionary conditions into growing revolutionary movements. Still other studies are flawed because they tend toward monocausal explanations for the rise of revolutionary movements.

It seems to me that, for those interested in understanding and explaining concrete revolutionary situations and movements, all case studies and theories of revolution should try to explain the origin and nature of the conditions out of which revolutionary movements arise; the emergence and early growth of revolutionary movements; and the national and international contexts that contribute to the strengthening or weakening of revolutionary movements.

Using a case study from the Philippines, I hope to achieve two goals—to explain for a single revolutionary movement the three points just raised, and to offer suggestions about how extant theory could be revised to make it more generally applicable. I will conclude by arguing that the national and international contexts must be more dynamically incorporated in our analyses of revolutionary movements. These contexts are the key both to a more general theory and to understanding the uniqueness of any single case study. To confirm this argument, I will first discuss a subset of the literature on revolutions, and then turn to the Philippines.

II. Theories of Peasant Revolution

The Emergence of Peasant Movements

Since most of the work on Southeast Asian peasant revolutions has been extensively reviewed and tested elsewhere, it will be discussed only briefly here.

The two broad models that seek to explain the origin and nature of the conditions out of which peasant-based political movements arise are those of James Scott, who examines the moral economy of the peasant, and of Jeffery Paige, who looks to the patterns of class conflict that characterize agrarian societies. Samuel Popkin is more concerned with addressing the conditions that contribute to the growth of revolutionary movements than with the conditions out of which revolutions arise. Although it is a common academic exercise to contrast the work of Scott and Popkin, it seems more appropriate to contrast Scott and Paige.

First, to be fair to Scott, it is important to point out that although many others have sought clues to peasant revolutionary behavior in his

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work, he himself states explicitly that his analysis is limited to the study of peasant *rebellion*, that he "is not concerned with the broader question of peasant revolution," and that "such an analysis would require an examination of other classes and the international state system to which I cannot pretend to do justice here."[8] Despite this focus on rebellions, however, Scott's work remains valuable for understanding the conditions out of which revolutions emerge.

In *The Moral Economy of the Peasant*, Scott was primarily concerned with explaining the depression rebellions of Southeast Asia. Traditional agrarian structures had evolved because of demographic changes, increased production for the market, and the strengthening of the state. These political and economic changes under colonial rule had a marked negative effect on preexisting patterns of patron-client ties. With a weakening of these ties, the peasants' sense of physical security declined, and they were more susceptible to subsistence crises.[9] Scott found that different social structures, faced with similar declines in security and threats to subsistence, could produce different reactions:

> peasantries with strong communal traditions and few sharp internal class divisions (Annam, Tonkin, Upper Burma, East and Central Java) . . . are more explosive. . . . The pioneer villages of Cochinchina and Lower Burma, by contrast, are far more divided structurally and hence socially. There is no ready-made structure of communal authority (or it is far weaker) of which they can make use. Thus the argument runs, the more communal the village structure, the easier it is for a village to collectively defend its interests.[10]

If this article were a study of peasant *rebellion* in the Philippines, we might, following Scott, hypothesize that rebellion would rise first in the lowland, settled, rice-growing villages—the irrigated plains and major river valleys of the main islands of Luzon, Panay, and perhaps Mindanao. These areas most closely approximate those described by Scott; it could be predicted that peasants in these villages would rebel when they were hit by both a subsistence crisis and a decline in the willingness of landlords or other wealthier members of the village to live up to norms of reciprocity. The tradition of strong family and communal ties would strenghten the will of the villagers both to hold the wealthy to the norms of the village and to defend collective interests against the depredations of outsiders extracting surplus from the village.

[8] Scott (fn. 1), 194. McClintock's study of the *Sendero Luminoso* (fn. 3) is an example of a test of Scott's theory of peasant rebellion when applied to a contemporary revolution.

[9] James Scott, "The Erosion of Patron-Client Bonds and Social Change in Rural Southeast Asia," *Journal of Southeast Asian Studies* 32 (November 1972), 5-37.

[10] Scott (fn. 1), 201-2.

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If we wanted to extend the work of Scott, we might then move from the lowland, settled, rice-growing villages to an analysis of other classes and the international state system to hypothesize about conditions that might lead to the transformation of peasant rebellion into revolution.

In contrast to Scott, Jeffery Paige looks at class rather than at village structure as a causal variable. Because of this concern, he focuses on typologies of class conflict, especially conflict that may lead to agrarian revolution. Class structure in this model is determined largely by the sources of income of lower-class cultivators and upper-class noncultivators. Building on the work of Mintz, Steward, and Stinchcombe,[11] Paige presents a typology of commercial agricultural organizations, each with a typical pattern of rural class relations.

For example, the owners of capitalist plantations (what Paige calls industrial and commercial capital) can afford to make concessions to their agricultural workers who are dependent on wages. Land is only one of several factors of production in the enterprise, and changes in technology can lead to increases in productivity and a subsequent increase in profits. These profits can be shared with workers, thereby reducing class tensions.[12]

By contrast, where both cultivator and noncultivator are dependent on income from land, the characteristic pattern of conflict arises over control of the land. Paige argues that those who actually work the land—the cultivating class—are dependent on it and therefore tend to be conservative and unable to organize collectively or to enforce political solidarity. He calls this type of production system a commercial hacienda and argues that it is likely to result in sporadic but not uncommon revolt. The commercial hacienda produces export crops, but in a primitive fashion. The upper class maintains itself through a system of special privilege based on the repression and disenfranchisement of most of the population; the cultivators may produce export crops for sale or they may work for wages, but they remain dependent on subsistence plots for the bulk of their livelihood.

Paige does not believe that strong political organizations can form in a competitive peasant subsistence economy such as this. Political organization depends on different forms of economic organization or on interest groups outside the peasant economy. The result therefore is often a

[11] Julian Steward et al., *The People of Puerto Rico: A Study in Social Anthropology* (Urbana: University of Illinois Press, 1956); Eric Wolf and Sidney Mintz, "Haciendas and Plantations in Middle America and the Antilles," *Social and Economic Studies* 6 (September 1957), 380-412; Arthur Stinchcombe, "Agricultural Enterprise and Rural Class Relations," *American Journal of Sociology* 67 (September 1961), 165-76.

[12] Paige (fn. 1), 24.

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localized revolt. Even though depression, war, or political conflict may weaken the upper class, the most common form of social movements is the agrarian revolt. Paige goes on to say, however, that the balance of terror on which the commercial hacienda system rests can also be upset by political organization introduced into the peasant community from the outside.[13]

On the other hand, he argues that

> decentralized sharecropping systems in general and irrigated rice production in particular . . . are likely to create a homogeneous landless peasantry with strong incentives for collective action and intense pressure for group solidarity. These economic characteristics should in turn lead to political radicalism, powerful organizations, and intense class solidarity. Thus an organized class-conscious proletariat is the likely consequence of sharecropping systems. In fact, areas of tenancy have shown a pronounced attraction to left-wing, particularly Communist ideologies and a surprising potential for powerful political organization.[14]

When this sharecropper working class with its strong sense of solidarity confronts an intransigent landlord class, demands result that, at minimum,

> include the expropriation of the landlords and the distribution of their lands, [and] at maximum the revolutionary overthrow of the state which supports landed property. The two demands are often intertwined, since the landlords are not likely to give up their lands without a fight. Revolutionary Communist movements in rural areas have been almost exclusively associated with sharecropping in general and irrigated rice sharecropping in particular.[15]

According to Paige, revolution will occur in situations where sharecroppers confront intransigent, conservative landlords who are dependent on land for their own income. The economic weakness of the upper class, he tells us, "leads it to close off all avenues of social action except violent resistance."[16] The tenants are class-conscious, not because of their common origins in a village or because of a set of village traditions, but because they exist in a cropping system that generates intense class conflict over land and the surplus produced on that land.

Paige brings to his model an analysis of the other classes and the state, which Scott does not undertake because his focus is rebellion, not revolution. Nevertheless, they both predict violent, armed struggle by peasants in rice-producing villages. Scott hypothesizes that the rebellions emerge there because these villages have the strongest traditions of soli-

[13] *Ibid.*, 40-43.
[14] *Ibid.*, 62.
[15] *Ibid.*, 63.
[16] *Ibid.*, 58.

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darity and because the villagers confront common threats and enemies. Paige proposes that these villages will become the locus of revolution because the sharecroppers who live there suffer, along with their colleagues in surrounding villages, from identical grievances at the hands of the landowning class. Before we examine whether these hypotheses are applicable to the Philippine case, we must take up the second portion of the analysis: the factors that contribute to the growth of revolutionary movements.

The Growth of Revolutionary Movements

Even while focusing on other issues, both Scott and Paige acknowledge the important role that outside political organizations may play. That role is central to the analyses of scholars such as Jeffrey Race and Samuel Popkin.

Popkin's critique of the moral economy analysis is well known. He challenges the notions that there is an extensive norm of reciprocity in the villages of Southeast Asia, that the villagers are risk-averse, and that they are necessarily hurt by the expansion of market relations and the strengthening of the state. He further argues that peasants are rational, individual, utility maximizers; for this reason, he makes the peasant or the peasant family his unit of analysis, in contrast to Scott's villages or Paige's classes.[17] Both Popkin and Race argue that, in view of widespread peasant grievances, it is vital to examine the role that outside organizations play in shaping peasant unrest.

Race is concerned with the emergence of revolutionary organizations. While he has argued that the strength of a revolutionary movement may be due to proper policies (analysis, tactics, strategy, etc.), he maintains that this is inadequate to account for revolutionary emergence.[18] In explaining this phenomenon, Race proposes that we may fruitfully view a revolutionary movement as a cooperative system, but that at the same time it is a formal structure; as such, it includes an authority structure—

> i.e., a structure in which participants execute orders because they feel it is right to do so, despite individual preferences to the contrary. Both components—voluntary cooperation and authoritative coordination—are present, and our specific question is how such a cooperative-authoritative structure comes into being where none existed before.[19]

[17] Popkin (fn. 1), chaps. 1 and 2.

[18] Jeffrey Race, "Toward an Exchange Theory of Revolution," in John Wilson Lewis, ed., *Peasant Rebellion and Communist Revolution in Asia* (Stanford: Stanford University Press, 1974), 169-204, at 171.

[19] *Ibid.*

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Race's answer is that, first, structure emerges out of and is perpetuated by exchange processes. Second, the emergence of a structure creates additional resources: "such a structure, having a hierarchy of status, will *ipso facto* provide new status roles, at least with reference to the organization's members."[20]

Samuel Popkin explains these issues as part of the logic of collective action and the rational decision-making process of the peasants—their calculation of the prospective returns on their investment and the quality of the organization to which they are making their contribution:

> When a peasant makes his personal cost-benefit calculations about the expected returns on his own inputs, he is making subjective estimates of the credibility and capability of the organizer, "the political entrepreneur," to deliver. . . . Whether the entrepreneur is directly exchanging immediate individual benefits for peasant inputs or trying to convince the peasant that his actions can have a perceptible and profitable impact on the collective good, he must be concerned with increasing the peasant's estimates of the efficacy of his contribution to secure the promised returns.[21]

Popkin thus contends that, in interacting with the peasants, the political entrepreneur can offer localized and selective incentives such as protection, labor, and assistance in lowering rents. He then extends the analysis to argue that the collective good—revolutionary change—comes about as a by-product of the provision of selective incentives, through the cumulation of localized exchanges.[22]

It can thus be argued that both Race and Popkin predict that revolutionary movements will emerge and grow precisely in those areas where peasants suffer from widespread grievances and where outside organizations (political entrepreneurs) offer exchanges that are attractive to utility-maximizing peasants.

Peasants in the Philippines are likely to have numerous grievances; if, therefore, we take as given the existence of revolutionary preconditions, we can test which of the models described here will best explain the course of the revolutionary movement to date.

The moral economy model would predict peasant rebellion in lowland, settled, rice-producing villages, with the village being the key unit of analysis. The class structure model would predict revolution to break out first in the same region, but only if the villagers are sharecropping tenants. The class structure model also holds out the possibility of revolution in the commercial haciendas that produce export crops if outside

[20] *Ibid.*, 174.

[21] Popkin (fn. 1), 259.

[22] Samuel Popkin, "Political Entrepreneurs and Peasant Movements," in Michael Taylor, ed., *Rationality and Revolution* (Cambridge: Cambridge University Press, 1988), 9-62, at 13.

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political leadership is present. The key unit of analysis would be class. The rational economy model would predict revolutionary activity wherever the political entrepreneurs who make up a revolutionary leadership had established an exchange relationship with peasants that encouraged the latter to make long-term investments in revolutionary change.

III. The Philippine Case Study

The Emergence of Peasant Movements

The case study method can tend toward an overemphasis on the unique factors of a case. And part of the goal here is precisely to show why a revolutionary movement has emerged and continues to grow in the Philippines. More importantly, though, I want to use the case study to revise extant theory so as to make it more general.

A problem immediately arises for the moral economy approach: although peasant rebellion has a long history in the settled, rice-producing regions of the Philippines, it has not been an important form of peasant political action since the 1950s. Subsistence crises still threaten the poor, but the political economy of these crises has changed since the time of the earlier rebellions. For example, land reform programs have broken up the largest of the haciendas in the rice economy, so peasant anger cannot be as easily focused on the landlord. New forms of patronage have sprung up to replace the patron-client ties that had bound tenant to hacienda-owning patron in the past. Also, class differentiation has broken down village solidarity; in fact, the increased commercialization of the rice economy has generated conflicts of interest among the poorer members of the community. Such conflicts may erupt over access to irrigation water, over the price to pay the growing class of landless laborers for work in the rice fields, or over the growing use of labor-saving machinery. Scott himself has documented these changes in a lowland rice-producing region of Malaysia.[23] Massive government investment and a growing military presence, coupled with better transportation and communication, make rebellion less likely in the lowland rice-producing regions of the Philippines.[24] As Scott correctly points out, the risks of

[23] James Scott, "History According to Winners and Losers," in Andrew Turton and Shigeharu Tanabe, eds., *Senri Ethnological Studies No. 13: History and Peasant Consciousness in South East Asia* (Osaka: National Museum of Ethnology, 1984), 161-210.

[24] Brian Fegan reports, "At the end of the 1960s, few rural towns hardly had national government employees apart from school teachers and the postmaster. Today a municipality of 60,000 usually has offices for the Ministry of Agrarian Reform, the Ministry of Local Government and Community Development, the Ministry of Human Settlements, National Grains Authority, National Irrigation Authority, Bureau of Agricultural Economics, Rural

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rebellion are "largely proportional to the power of the state (and of course its willingness to use that power)."[25]

In analogous fashion, the complexity of the contemporary era raises problems for Paige's model. Although he is to be commended for seeking hypothesized relationships that can be generalized across time and national boundaries, at least two problems arise when his formulations are applied to the Philippines. First, as already mentioned, the sharecropping areas (and the irrigated rice-sharecropping regions in particular) are subject to government investment and militarization. This makes it unlikely that a peasant revolution could be successfully initiated here. The national political economy has so changed the local conditions that the hypothesis, no matter how powerful when considered abstractly, is contradicted by reality. Second, and more serious from a theoretical standpoint, is the immense class differentiation that has taken place in the irrigated rice-growing regions of the Philippines and of Southeast Asia more generally. The incorporation of the rice-producing regions into larger national and international markets has generated additional sources of income. Moreover, population pressure, land reform programs, and a market in land have generated a diverse pattern of landholding and land renting. Increasingly, *pure* sharecroppers are a rarity. Each family has a variety of income sources both within the village proper and outside the rice economy.[26] The sharecropping rice cultivators are not, in fact (as Paige argues), a homogeneous group that confronts a weak, landed aristocracy. They face in differential fashion a variety of noncultivators, including landlords, moneylenders, traders, nonagricultural employers, and government agents.

Thus, neither a moral economy nor a class-based model (as originally formulated) will suffice to explain the origins of the revolutionary conditions in the Philippines. But there may be a way to salvage their insights. What strikes me as truly important about these two models is their specification of the conditions under which contradictory class interests emerge as contentious issues; that is, where the mechanisms of political culture no longer suffice to disguise or ameliorate the differences that always separate those with unequal economic strength and conflict-

Health Units, etc." See "Land Reform and Technical Change in Central Luzon: The Rice Industry Under Martial Law" (Quezon City: University of the Philippines, Third World Studies Center, *Philippine Commodity Paper*, Series No. 4, 1982), 13.

[25] Scott (fn. 1), 195.

[26] This argument is based in large part on the detailed empirical evidence presented in papers from a conference on "Processes of Agrarian Change in Southeast Asia," sponsored by the Social Science Research Council at the East-West Center, Honolulu, Hawaii, December 14-20, 1983; published as Gillian Hart et al., eds., *Agrarian Transformations: Local Processes and the State in Southeast Asia* (Berkeley: University of California Press, 1989).

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ing economy interests. These differences, as Scott has shown, are further exacerbated if they occur in a harsh environment, one that periodically threatens the very existence of the inhabitants. What is important is that tenants, laborers, and small farmers share harsh circumstances, yet have the ideological and political opportunity to forge new attitudes (that are beyond the control of the landlords or the military) about landownership and social organization. In the contemporary era, this is not determined by village structure; rather, it is determined by the national political economy.

In similar fashion, what Paige considers important can and must be reformulated. He specifies a situation in which a low-income class of cultivators suffers from common problems and confronts an upper class that is dependent on income from land. This will result in a pattern of zero-sum conflict between cultivators and noncultivators because this noncultivating class (a) relies on political restrictions of landownership; (b) tends to be dependent on servile or semiservile labor (and therefore cannot permit the extension of political or economic rights to cultivators); and (c) tends to produce a static agricultural product.[27]

What Scott and Paige are describing does exist in the Philippines: however, it is located in the more marginal, upland agricultural areas where sharecroppers produce both agricultural commodities for export and subsistence crops for family consumption. The precariousness of existence and the characteristic patterns of class conflict described by Scott and Paige are also common on many of the country's commercial plantations. A majority of the large plantations that were established or expanded in the 1960s are located in less accessible, less settled areas where central authority was weaker and land could be consolidated for commercial production. The fact that this process of land consolidation required bending or breaking the nation's laws contributes to the grievances that fuel today's revolutionary movement. The plantations, which produce pineapples and bananas, are on prime, lowland soil; their establishment required the dispossession of earlier occupants, both Christian settlers and even earlier non-Christian natives. The coconut producers also increased production sharply during the 1960s. This was done primarily by Filipino corporations and landlords expanding into upland regions—again often displacing earlier settlers or incorporating them into the enterprise as tenants or workers.

In both these areas, national political authority is weaker, land grabbing is a more serious problem, landlessness is rampant, patron-client

[27] Paige (fn. 1), 18-23, passim.

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ties are more tenuous, and the isolation presents a perfect opportunity for organization and education devoted to bringing about revolutionary change. Not coincidentally, the revolutionary movement in the Philippines has had its greatest success in these parts of the country. Some discussion of the larger Philippine political economy is needed to explain this situation fully.

From the late 1960s it was clear that import substitution industrialization in the Philippines had failed to solve the problem of balance-of-trade deficits, just as it had in other countries. In the face of economic stagnation and growing trade deficits, pressure mounted from agricultural exporters, technocrats, and foreign lenders for new changes in development policy.

As a result, there has been a gradual opening of the economy. In addition, incentives to foreign investors, decreases in the tariffs imposed by developed nations, and IMF-initiated devaluations of the peso combined to increase the area devoted to export agriculture. As the land frontier gradually closed, the expansion of export-crop production tended to take place at the expense of subsistence or small-scale marginal producers. Beginning in the late 1960s, a plantation-style banana industry developed under the control of multinational corporations. Within about five years, twenty-five thousand hectares were converted to the production of bananas for the Japanese market. Likewise, pineapple production on Philippine plantations increased to meet the growing Japanese demand, with the area doubling to sixty thousand hectares. By the 1980s, Malaysian corporations were diversifying out of their home country to produce African palm oil on thousands of hectares in the Philippines. These examples of foreign investment in export agriculture, while relatively small, must be added to the even larger expansion of domestic investment in the sugar, cocoa, coffee, and coconut industries, also primarily for export. The latter increase, unlike that which resulted from multinational investment, was not just in plantation agriculture, but in a wide variety of tenurial and landholding patterns.

The rapid expansion of land planted to agricultural export crops (see Table 1) has been possible only because massive timber exports and the attendant massive deforestation have made more land available.

This pattern of development is nearing an end; the unbridled destruction of forest cover and transformation of forest into cropland cannot continue indefinitely. With little new land becoming available, the high rates of population growth and low rates of labor absorption in the urban areas have combined to result in increased levels of tenancy, smaller farm sizes, and growing conflict over land. A comparison of the Philippine

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TABLE 1
AREA CULTIVATED IN MAJOR PHILIPPINE CROPS
(IN THOUSAND HECTARES; 1 HECTARE = 2.47 ACRES)

	1948	*1960*	*1984*
Total land area	30,000	30,000	30,000
Total cultivated area	5,727	7,772	9,749
Rice	1,649	3,112	3,755
Corn	372	949	1,979
Sugar cane	89	249	313
Coconuts	755	1,939	2,842

Sources: 1948: Republic of the Philippines, Department of Agriculture and Natural Resources, *Philippine Agricultural Statistics*, Vol. II, 1954, pp. 12, 16, 18.
1960: Republic of the Philippines, Bureau of Census and Statistics, *Census of the Philippines 1960: Agriculture*, Vol. II, Summary Report, pp. 2, 11.
1984: Philippine Forestry Statistics, reprinted in the information packet distributed by the Ministry of Agrarian Reform at a news conference on February 8, 1987, Kalayaan Hall, Malacanang, Metro Manila.

government's 1971 census of agriculture with its 1980 census reveals that total farm area increased 6.36 percent over the ten-year period, but the number of farms grew by 46.04 percent (from 2.35 million in 1971 to 3.44 million in 1980). As a result, the size of the average farm dropped from 3.61 hectares to 2.63 hectares.[28] Another indication of the growing controversy over landownership is the fact that several peasant organizations have begun to invade, occupy, and produce on previously idle, unplanted, or government lands.[29]

Indicating the severity of the land problem is one thing; providing concrete data on the situation is more difficult. Information on the landless is notoriously sparse in the Philippines, but there is general agreement that their numbers are growing rapidly. One survey, conducted in 1980, of villages in eight different provinces producing a variety of food grains and export crops showed that the percentage of landless among agricultural households (without access to land of any kind) ranged from a low of 18.91 percent in the province of Pangasinan to a high of 47.88 percent in the province of Iloilo.[30] The Rural Workers Office of the Ministry of Labor estimated in 1980 that 4.4 million of the 9.0 million rural

[28] *Philippine Yearbook 1987* (Manila: Republic of the Philippines, National Statistics Office), 325.

[29] In a personal interview in July 1988, Jaime Tadeo, Chairman of the KMP (*Kilusang Magbubukid ng Pilipinas*, or Philippine Peasant Alliance) stated that the Alliance's members had occupied a total of nearly 70,000 hectares through land invasions, and that nearly 50,000 hectares had been made productive.

[30] Clarissa S. Gonzales-Custodio, "Socio-economic Profile of Landless Agricultural Laborers," in *Proceedings: Workshop on Landless Rural Workers* (Los Baños, Philippines: Philippine Council for Agricultural and Resources Research, 1980), 7-36, at 8.

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laborers were landless. (However, because of the definition it used, the Rural Workers Office includes tenants in its category of landless.)[31] These estimates are supported by detailed village studies. For example, Masao Kikuchi, in his study of a single rice-growing village in the province of Laguna, found that between 1966 and 1980 the proportion of landless worker households increased from 31 to 63 percent.[32]

Government officials often argue that the expansion of the export agriculture industry involved land that had been newly logged over, and that there is therefore no conflict between small farmers or tenants and the expanding plantations.[33] Yet, in most areas where commercial logging has cleared suitable new land, it was quickly occupied by small-scale agricultural settlers. Inevitably, then, the noncultivating owners, whether landlords or plantation managers, have sought to remove the settlers, either legally or illegally, in an effort to expand the land area devoted to export crops. In most cases, this has involved manipulation of the legal system, violence, or intimidation, and has become a major source of social conflict. In addition, the growth of farmland devoted to more traditional export crops such as sugar and coconuts has often come about through the expansion of older haciendas or by converting land previously devoted to rice cultivation. This can only be done by displacing tenants and small landowners. Growing numbers of displaced farmers and workers have been forced to migrate to the hilly, marginal lands that have recently been deforested. This dislocation has naturally increased social conflict and competition for the ever scarcer resource of productive land.

The rapid expansion of agricultural exports during the late 1960s and early 1970s did position the Philippines to benefit from the boom in commodity prices during the mid-1970s; earnings from coconut oil doubled between 1973 and 1974 and those from sugar almost trebled in the same year.[34] Unfortunately, the political economy of the Philippines ensured that the benefits from this boom would not be widely distributed. In September 1972, Ferdinand Marcos had centralized political control by

[31] Quoted in Edward P. Reed, "Agrarian Reform and Rural Reconstruction: A Seminar Report" (Silang, Cavite, Philippines: International Institute of Rural Reconstruction, 1980), 20.

[32] Kikuchi, "Recent Changes in a Laguna Rice Village: A New Generation of Change?" in Antonio J. Ledesma, S.J., et al., eds., *Second View from the Paddy* (Quezon City, Philippines: Ateneo de Manila University, Institute of Philippine Culture, 1983), 59-72, at 60, Table 1.

[33] Such statements were repeatedly made by Philippine government officials in interviews I conducted during 1980 in the course of research on plantation agriculture.

[34] Central Bank of the Philippines, Annual Report, *Statistical Bulletin, 1979* (Table V.10) and *1984* (Table 6.10).

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declaring martial law; this was only a prelude to the centralization of economic control. No matter how flawed the political system may have been before then, it was built on political coalitions that were forced to compete in elections and therefore had a concrete incentive to distribute patronage.

Under the old political system, the windfall profits that resulted from the commodity price booms could have been used to ameliorate the nation's social problems, or invested in industrialization and infrastructure to lessen dependence on commodity exports. Instead, using martial-law powers, Marcos established quasi-governmental monopolies by presidential decree.[35] The windfall profits of these monopolies were used to fund the Marcos political machine. Since elections were held under only the most rigidly controlled conditions (at least until the election of 1986) and the opposition had little chance of winning, neither Marcos nor his local political allies had much need for the widespread distribution of patronage. Much of the surplus from the export industries could therefore be lavished on the upper ranks of the military or spirited abroad. Estimates by the Philippine Commission for Good Government (which President Aquino has charged with recovering "ill-gotten wealth") of the amount of money that has been illegally acquired and moved abroad range up to ten billion U.S. dollars.

Even this brief discussion suggests many reasons for arguing that the political economy of Philippine agriculture practically guarantees the existence of severe social tensions in the countryside. However, if we investigated village structure, subsistence crises, and the decline of patron-client ties (as Scott did in his work on the moral economy of the peasant) we would look in the wrong places for conditions conducive to the development of a revolutionary movement. Similarly, if we followed the work of Paige and looked to the lowland, rice-sharecropping sector of the agricultural economy as the source of the revolutionary movement, we would also be misled. In the Philippines and elsewhere, we must search for a situation in which both the potential and the opportunity for revolution exist; in which a cultivating class confronts a class of noncultivators that is dependent on the land for its income; in which cultivators share a tenous tie to the land; and in which noncultivators seek to repress political and economic organization by the cultivators.

The Communist Party of the Philippines (CPP) did try, after its "reestablishment" in 1969, to start an armed revolution in the lowland, rice-producing Central Luzon region. It was hampered in this initial effort

[35] For greater detail, see Gary Hawes, *The Philippine State and the Marcos Regime: The Politics of Export* (Ithaca, NY: Cornell University Press, 1987).

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by the difficulty of building a mass base in provinces easily dominated by the government. These were the provinces, after all, where the memories of government repression and of the failures of the Huk rebellion of the 1950s were still vivid, where the green revolution strategy has been most widely adopted, and where major U.S. and Philippine military bases are located.

If we want to find revolutionary conditions, we should look—as did the Communist party after 1971—to the peripheral regions of the country. Here is where the party and the NPA began to organize a mass base, and where we find a wide variety of tenurial statuses: pure wage laborers, sharecroppers, and small landowners. In the marginal and upland regions, as well as in those regions largely devoted to the production of coconuts and sugar, the cultivating class is internally differentiated, but the noncultivating class is more homogeneous. In these marginal and commercial crop-producing regions, the latter is likely to combine income stemming from landlord, commercial, and governmental sources, as well as to hold economic and political power. Thus, it becomes the single target of a revolution seeking to overthrow both the landlords and the state. In the recently logged-over regions of the country, the timber license holders and the politicians (often one and the same) take advantage of their political influence to gain title to lands that have almost always been made productive by small settlers. These small settlers are often the very same people who have recently been forced to move to the uplands. They are the people who have borne some of the costs associated with rapid population growth, the mechanization of production processes, and the rise of export agriculture. Hoping to build a new life on new land, they have moved to the uplands, but find themselves once again at the mercy of the politically and economically powerful. Rowe Cadeliña has estimated that of the 7.5 million upland swiddeners in the Philippines, around 35 to 40 percent are migrants from the lowland; the rest are natives. In a micro-study of an upland ecosystem, the same scholar found that 20 percent of upland farmlots were titled; 33 percent were not titled, but the tillers had tax declarations giving them some claim to the land; the remaining farms were not covered by any document of ownership at all. This indicates the scope of the problem for upland farmers faced with rampant land grabbing.[36]

On the plantations producing sugar and coconuts for export, the tenants and laborers also suffered the consequences of the monopolies estab-

[36] Cadeliña, "Poverty in the Upland: Lowland Migrant Swiddeners in the Balinsaysayao Forest, Negros Oriental," in Ricardo Abad et al., eds., *Faces of Philippine Poverty: Four Cases from the Visayas* (Quezon City: Philippine Social Science Council, 1986), 165-86, at 174.

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lished by Marcos in the mid-1970s: as prices for their exports fell, the landowners passed as much of the burden as they possibly could to the tenants and workers.

Here in the uplands and on the plantations we find the class of people who are economically weak, with only tenuous claims to the land. They confront the conservative, even repressive noncultivating class described by Paige. This noncultivating class depends, at least in part, on its ownership of land for a source of income. Control of land and natural resources is central for the maintenance of political power. The blatant corruption, repression, land grabbing, and use of political power by the regional political elites during the Marcos years meant that few in the landowning class perfomed the legitimizing functions of the patron that Scott considers an important explanatory variable. This pattern of behavior, while not uncommon during the democratic era, was exacerbated during the years when, in exchange for loyalty to Marcos, local political leaders were given greater leeway in the exploitation of their power and position.

Slightly revised, Paige's class analysis leads us to a region where tenants and settlers confront a homogeneous class of noncultivators. The moral economy analysis predicts that these noncultivators will lack legitimacy if they fail to meet the norm for behavior of patrons. When we combine these insights, we discover a terrain that is hospitable to revolutionary organizational work and armed struggle. The CPP quickly identified this potential revolutionary situation, but a difficult task remained: the organization of a diverse cultivator class around a single set of revolutionary tactics and goals. They found they could not depend on the uniform village or class structures as predicted by Scott and Paige. What this also suggests is that potential alone is insufficient for explaining the outbreak or development of revolutionary struggle. Thus, while some progress is achieved by synthesizing the insights of Scott and Paige, their work must be supplemented with a complementary analysis that includes revolutionary strategy and tactics as well as the role played by the state in creating conditions conducive to revolution.

The Growth of a Revolutionary Movement

In 1971, the Communist Party of the Philippines and the New People's Army, after initially trying to establish a consolidated base area and being virtually eliminated by the government's armed forces, seized upon a new strategy. Taking advantage of the fact that the Philippines consists of a chain of moutainous islands, the CPP chose to follow a policy of self-reliance: "... there is no alternative now and even for a long

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time to come but to adopt and carry out the policy of centralized leadership and decentralized operations."[37] Cadres were expected to find their own bearings and to maintain their initiative even if cut off from the centralized leadership for as much as a year or two. Making a virtue of geography, the leadership declared that

> mountainous terrain, where more people inhabit the clearings, plateaus, and riversides or creeksides, is more favorable for the people's army. The usual inhabitants of mountainous areas are national minorities and poor settlers. These are very receptive to revolutionary propaganda. Their common enemy is the reactionary government which treats their lands as public lands and either directly grabs these from them or allows big landlords, big bureaucrats or big capitalists to grab these from them. . . . From the mountainous and hilly areas, we can expand towards the more-populated plains. Even when we shall have gone far in building bases on the plains, our mountainous and hilly bases will retain their strategic importance as guarantors of the victorious advance of people's war.[38]

In a mid-1986 assessment, the military estimated that about 18.5 percent of the nation's barrios were affected by the NDF's organizational efforts, and another 17 percent of all barrios were "threatened."[39]

The NDF faces government troops numbering roughly two hundred thousand (less than half of whom are combat soldiers). The official armed forces are supplemented by hundreds of vigilante groups organized by landlords, politicians, police, and military figures, as well as by a local militia—the Civilian Armed Forces Geographical Units.

After twenty years of armed struggle, the NDF has made great progress in organizing efforts that go far beyond the upland communities. Its mass base now spreads from the uplands to the lowland rice-growing communities and into the cities. The armed struggle is increasingly taking place in the lowlands and other more settled, even urban areas. But in the places where the government's military presence is still overwhelming, separate legal organizations unaffiliated with the NDF have developed, which seek to organize poor peasants and tenants for political

[37] Amado Guerrero, *Specific Characteristics of People's War in the Philippines* (Oakland, CA: International Association of Filipino Patriots, 1979), 9.

[38] *Ibid.*, 12.

[39] A barrio is the nation's smallest administrative unit. It is roughly equivalent to a village, but ranges in form from a cluster of rural households surrounded by agricultural land to a small political unit in a larger urban area.

The figures are from an Armed Forces of the Philippines document which was classified secret, but was widely distributed in Manila by mid-1987. The estimates are likely to be on the low side. Every city and town in the country was listed, along with the corresponding barrios believed to be "influenced, infiltrated, or threatened." When asked to compare the government's list with the actual situation in one province, activists there pronounced the list to be the result of extremely poor intelligence.

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participation. These organizations have often suffered the brunt of the government's counterrevolutionary struggle despite their legal status and disavowal of violence.

To reemphasize a crucial point, however: the NDF found its initial success in mountainous regions inhabited by ethnic minorities and by settlers who had moved to remote areas in search of the land and opportunity they could no longer find in the lowlands. Both these groups very likely would have lost land to an expanding export agriculture. They would have suffered at the hands of the politically powerful. The state and the agricultural exporters would thus have driven these cultivators to an ever more marginalized existence. In this situation, the NDF had to generate a national revolutionary movement by capitalizing on the distress of peasants who suffered from land grabbing, high land rents, usury, theft of work animals and other livestock, as well as from social problems such as drunkenness and rape. These complaints are clearly different from the subsistence crises and loss of security Scott describes in the settled communities characterized by village solidarity. In fact, the villages in the upland regions of the Philippines are isolated, quite widely dispersed, and (with the exception of certain minority regions) recent in origin—often only a generation or two old. Because many of the villages are made up largely of migrants, the settlers often speak different dialects, thereby further inhibiting village solidarity. In short, without outside organization and arms it is unlikely that the villagers would be able to overcome the repression, the competitive pressures, and their own suspicions, and to join in confronting their problems as well as the powerful political elite. However, with the arrival of outside organizers and weapons in the form of NDF cadres, a great deal of success has been achieved even in this harsh environment.

How do we account for this success? Even though we know that conflict is endemic in the countryside, we must explain why some patterns of conflict result in the outbreak of violence while other patterns of conflict remain muted. In the Philippine case, this transformation of endemic social conflict into armed struggle requires an analysis of the outside organizations that have sought to forge collective action out of the individual complaints of tenants, laborers, plantation workers, and small landowners.

Throughout the Philippines, the NDF's cadres have actively engaged in the process of building a revolutionary structure. As described in Race's discussion of exchange theory, these cadres have spent years building trust among the villagers. What did they exchange? They provided labor in the fields and homes; they helped the peasants analyze their

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situation; and they educated them about the larger national issues. But, more concretely and more importantly, they provided protection.

In almost every village, the cadres that begin the organizational work are members of armed propaganda teams (SYPs, or *sandatahang yunit pampropaganda*) who work with the people on a social investigation of the community's problems. Early on, this investigation usually leads to decisions to drive out the cattle rustlers and petty thieves; to reform the wife beaters, the adulterers, and the habitual drunkards; and to provide security for the small tenants who are threatened with eviction.

Kumander Dante, a former leader of the NPA, has recently stated that in the early years they were accepted to the extent they were a weapon against land grabbers, forest loggers, greedy merchants, and usurers, as well as abusive civilian and military officials.[40] Government authority in the peripheral regions often appears in the guise of the land-grabbing politician or of those with powerful political connections. Where necessary to back up their claims, these elites commonly control local police or military units. Thus, in a country where the rich and powerful (especially in the remote areas) are seldom subject to the restrictions of the law or the judicial system, the NPA became the source of justice for the weak. This included warnings and educational campaigns, and there was always the threat of recourse to violence in the end. The people of the countryside—at least those I spoke with—having grown accustomed to being victims of violence, understood the value of an organization that had recourse to violence and was on their side.

Many people in these localities had similar stories to tell—they felt *utang na loob*, a sense of debt or gratitude to the cadres for what they had done for the village. The wives especially appreciated the fact that drinking had been largely eliminated. At the same time, it is important to note that not everyone supported the NDF organizers or their programs. In these regions, where people are divided by economic interests, by political ties, and by linguistic differences, the rise of a revolutionary movement has provoked an anticommunist backlash. The rise of vigilante groups—a recent phenomenon—has been fueled in part by recruits and funding from those who are opposed to NDF programs and discipline.

In the organized villages I visited, cadres had been living and working for up to six years and had gained widespread support. And out of the exchange between villagers and cadres emerged structures. The armed propaganda teams first establish contact with a small group, usually

[40] Dante, "Rethinking Philippine Society and Revolution," *Ang Katipunan*, January-February, 1988, p. 7 (reprinted from *Diliman Review*, Vol. 35, No. 3, 1987).

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made up of poor peasants—people who are locally respected and who (on the basis of information gathered by the NDF) can be expected to be open or receptive to the NDF's message. This first set of contacts is known as the GTB (*Grupong Tagapag-ugnayan ng Baryo*, or group to relate to the barrio), which goes on to seek out other contacts in the barrio. After education, the GTB evolves into an organizing committee that supervises the sectoral organizing groups. Each sector has its own group (with names differing by region and level of organization). Each new organization creates the potential for enhanced community status for the members, and the chance for some to take leadership positions within the organization and at public rallies.[41] Leadership is based on merit, and the leaders, while humble, take great pride in their new responsibilities. These village leaders also earn the respect of their neighbors and followers.

The cadres have done more than provide protection, labor in the fields, and new organizations. If that were all, it is unlikely that social conflict in the countryside would have reached the level of revolutionary warfare. What remains to be explained is the next step—the step where the collective organizations that have emerged begin to struggle for changes in the social structure and in the political economy of the agricultural sector.

It is at this point that the work of Popkin is most applicable. He starts from the proposition that peasants will participate in and contribute to revolutionary movements on the basis of their rational decision-making process—their calculation of the prospective returns on their investment and the quality of the organization to which they are making their contribution. An example may be drawn from my recent research trip to the Bikol region.[42] In the late 1970s, the villages in this region had been an expansion area for the NDF and the NPA. Most of the land there is devoted to the production of coconuts, with smaller plots of land (where suitable) producing upland rice and corn for subsistence. The farmers I spoke with said that at first they were afraid to meet with cadres of the NPA. They did not know if the armed group was there to help them, what it stood for, or if it was going to kill the civilians. It was only after

[41] For example, participants at a four-day leadership training course for the leaders of village youth organizations in one of the southern Luzon provinces were all out-of-school youths who were learning organizational and public-speaking skills. The teachers were NDF cadres, one a high school graduate from a middle peasant family, the other a college graduate who grew up in the city and whose family was a member of the bourgeoisie.

[42] What follows is based on in-depth interviews I conducted with farmers and NDF cadres during March 1987. The Bikol region is composed of the provinces of Camarines Norte, Camarines Sur, Albay, Sorsogon, and Catanduanes, all in the southernmost portion of Luzon Island.

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several years, in about 1981, that they gave their trust to the comrades. In the interim, they said, they had learned that the comrades were "pro-people and pro-poor," because, for example, they had helped protect tenants who were about to be evicted by smallholding landlords.

Having gained the trust of the tenants, the cadres worked on the sharing arrangement. Traditionally, two-thirds of the copra (the dried meat of the coconut) was the landlord's share. The quickest and easiest way to change the sharing arrangement was to intimidate the overseers who lived in the area and supervised the production of copra. Through intimidation, the collaboration of the overseer, or subterfuge, it was possible to reduce the landlord's share of the crop. When there was a change in rent because of a campaign to hide the produce, the increase that went to the tenant was split fifty-fifty with the NDF. However, as of 1986 the system of hiding the produce (known as *palatik*) was banned because the NDF found that it encouraged theft. Instead, the NDF urged the tenants to negotiate directly with the landlord. According to the cadres, it was hard to convince the tenants to participate in open campaigns because they could get their 50 percent by just hiding a share of the crop. Of course, they could hide shares not just from the landlord, but also from the NDF. Open confrontation, the cadres felt, built class organizations and class consciousness. It could also, when successful, be used as an example to make organizational work easier in surrounding areas.

According to the farmers, they did not think about struggling to change their situation before the comrades came. They felt it was enough just to work and to eat. Although they believed they had a right to own land, the legal concept of private property had penetrated deeply; it was, to them, a right to *buy* the land. The cadres taught them how to struggle, how to petition for changes, and how to confront the landlord. Now they feel they have a right to land even if they cannot afford to buy it. Their vision of acceptable patterns of landholding has changed, as has the ability to implement their vision. This has given the people in the villages a real sense of having accomplished a just solution to their economic problem. They have confronted the landlords with their organized power and convinced them to agree to a new sharing system.

The tenants consider the benefits of their struggle to be material ones; the sharing relations are much better now. But there are other, less concrete benefits. The people of the villages now have the opportunity to express their demands (for example, against militarization or evictions). They experience a certain sense of pride in speaking up for justice for what they call the "little people."

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Indicating their new-found sense of community, the tenants and others from the villages have joined *Samahan ng Makabayang Magsasaka* (Union of Nationalist Peasants), a local organization that represents their interests. They repeatedly stated that they felt a sense of gratitude to the comrades who had helped them in the struggle, and that they were therefore willing to pay "revolutionary taxes" and even to share some of their land to help support the families of the comrades. In addition, they were at the time in the process of forming *luyo-luyo* (mutual aid teams) to share in the work.

In these villages, the organizational work of the NDF brought a change in the sharing arrangement, shifted the mode of struggle from covert theft to overt confrontation, and helped in the gradual development of a sense of class consciousness. After several years of painstaking organizational and educational work, the NDF was making headway.

It is not only the NDF, however, that provides organizational resources. On another island (Negros) and with another crop (sugar), the work of elements of the Catholic church helps to illustrate how outside organizations can be instrumental in fostering collective action—in this case, helping workers move toward more organized forms of struggle.

Because of the level of poverty, isolation, and landlord domination, as well as the nature of the crop produced, it is difficult for the sugar workers to hide the crop or engage in other kinds of "cheating." They are, for the most part, paid on a piecework basis where they control the pace of work and therefore their daily wage. In this situation, workers can ameliorate their family's difficult situation by currying favor with the leader of the work gang, the overseer, or the landlord so that they can get regular work. In the absence of a union representing their joint interests, this situation creates competition among the workers for individual and favored treatment.

The Catholic church (or at least part of it) has been active in organizing sugar workers since the 1950s. This work has been slow; progress has come in very small increments. In 1971, the National Federation of Sugar Workers (NFSW) was organized with the prominent assistance of two Catholic priests.

Organization of the NFSW proceeded against tremendous odds. Company-controlled unions were the general rule, and organizers for worker-controlled unions faced hacienda guards with shoot-to-kill orders, in addition to the police and military forces of the island. Despite these harsh conditions, the NFSW had made a significant impact by 1980—although more so on the workers in the sugar mills than on those

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on the haciendas; it thereby conformed to Paige's prediction that trade union reformism would be likely in a setting where the noncultivating class was dependent on capital (in this case, sugar mills).

In 1980, the workers on a typical hacienda were organized and were paid the equivalent of about $1.50 per day. They felt lucky if they could get two hundred days of work per year. They lived in bleak surroundings with few belongings and a meager diet. In answer to the question what changes it would take to improve their life, to make them happy, many—not surprisingly—said they needed more pay, with responses ranging from two to four dollars per day.[43]

Workers on a neighboring hacienda who had been organized by the NFSW gave a somewhat different answer. They believed they would need about seven dollars a day because they wanted to give their children the same kind of education as that received by the children of the owner of the hacienda. These workers had absorbed the message of the union—that they were every bit the equal of the hacienda owners.

Even more dramatically, the union organizers (drawn from the ranks of the workers) had a longer-term goal: they were trying to organize workers, "not just for pay increases, but ultimately for liberation." The leaders and some of the workers recognized that control of the land was at the root of the problem, and hence defined a just situation as involving more than wage increases.

By 1987, the sugar industry was in a state of collapse. The workers were not confronting the hacienda owners over the issue of wages; hacienda owners could not afford to pay higher wages, they could not even afford to plant their land. Thus, the struggle was not a struggle typical of trade union reformism. The union had now been thrust in the forefront of organizing workers to occupy the idled sugar lands and to plant subsistence crops. Here was an issue that could bind the workers together. In the reclamation of former sugar lands, the workers could see the basis for "liberation" from their bondage by the sugar industry. The struggle brought the workers together in the pursuit of land on which they could raise the food needed to sustain their families.

Within the confines of the hacienda production system, organizing the workers was a tremendous challenge. Even with the moral authority of the church behind it, the union had made only very slow progress. When the hacienda owners stopped planting sugar, however, there was a new context within which broadscale organizational work could progress.

[43] Interviews conducted in the province of Negros Occidental during September 1980, and followed up in 1987.

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Thus, in many cases an organizational effort may fail because the conditions are not yet conducive. As of the middle of 1987, the NFSW and affiliated groups had been able to organize the occupation (with or without the permission of the landowners) of about one thousand hectares. This was only a small start, but it proved to be an effective organizing issue. Once the land was occupied, the families of the workers were, for the most part, farming communally. They were experimenting with a variety of methods of labor organization and crop sharing. And, because of their experience in labor gangs on the sugar haciendas, the workers seemed to be more willing to produce communally than were the more individualistic coconut farmers. Since the sugar haciendas resemble the capitalist plantations described by Paige, we should expect that trade union reformism would be typical of the workers' struggle not just in the mills, but also on the haciendas. The problem with Paige's model here is that it leaves little room for the Marcos monopoly, which extracted virtually all the surplus—leaving none to share with hacienda workers. Nor does the model cope well with a commodity-specific recession in which planters refuse to continue planting. Once the hacienda owner tries to reclaim the land, we should expect the NSFW to suffer increased repression. The newly politicized workers are likely to increase their support for the revolutionary struggle that is taking place close to the haciendas (in the mountainous regions of the province). If they lose the political and economic opportunities that the recession opened for them, and the NFSW is unable to provide security, repression is likely to increase the workers' willingness to pursue revolutionary objectives.

These examples suggest that two things have changed in recent years. For the first time, there were quasi-state monopolies in the two industries, which exacerbated the already cyclical tendencies of the commodity markets. This served to focus the peasants' political struggles on opposition, not just to the landlord, but also to the state—more particularly to the Marcos regime. Second, there has been a greatly increased organizational and educational effort by a variety of institutions external to the peasant class—above-ground, legal peasant groups, the Catholic church through its basic Christian communities, and, most importantly, the NDF.

To recapitulate briefly: the NDF has been extremely effective in convincing the peasants that, if they contribute to the collective effort, they will be amply (if selectively) rewarded. The peasants gain materially through increased wages, lowered rents, and redistributed lands; they gain security through an end to petty thievery and to the rustling of work animals; and they gain an enhanced sense of community and individual

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esteem through the campaigns to end drinking, adultery, and spouse abuse. The NDF-organized groups provide new structures and new resources—among them status positions to be parceled out to the deserving from within the village. This part of the rational choice model holds true; Popkin correctly directs our attention to the cost-benefit analysis conducted by the peasantry and to the requirements for successful organizational work by political entrepreneurs. Where the organizations achieve rent reductions and land redistribution, it is entirely reasonable to expect (as the Philippine experience shows) that peasants will share their increased income with the cadres of the organizations. In the peripheral regions where social structure is least settled, the prospect for selective rewards is high, while the threat of repression is less imminent than in the lowland regions. The local bullies, bandits, and land grabbers are most easily intimidated on the periphery. At the same time, the more organized police and military forces are hesitant to challenge the NPA on its own territory. The hit-and-run tactics and ambushes that are the specialty of the NPA are most effective in areas distant from the military's supply lines and intelligence agents. These peripheral bases for NDF organizational work thus provide ample opportunity for success; moreover, additional NDF and NPA cadres can be recruited locally or brought in from lowland and urban settings.

At the same time, it must be reemphasized that the military can occupy any part of the country it wants, often at great human cost to the supporters of the revolution; there are no "liberated zones." Villagers may be willing to take the risks because they have calculated that the NDF is an organization that will do its best to defend them, and that they benefit individually from the NDF program. We are left, however, with the question why villagers actively participate—why not just free ride? Government neglect may be sufficient to convince villagers to join an alternative organization—even an illegal organization—that provides tangible goods in exchange for membership and the prospect of enhanced status. But these organizations are not struggling just for a change in land rent, not just protesting the lack of land reform, not just petitioning their congressional representatives for better government services in their area; they support armed revolution. Surely, more than just an incremental development of an exchange relationship and the resultant loyalty must be required to convince a villager to take the big jump to support armed revolution. Such a step implies a shift from a defensive orientation, where participants are recipients of the selective incentives that rational choice theorists have described, to participation in organizations that have a revolutionary ideology and program of action. The-

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ories of peasant revolution do a poor job of explaining this jump in the level of political commitment on the part of peasants.

What is missing is the larger context. It is this context, I believe, that convinces peasants to take the next, far riskier step—from participation in localized, self-help groups to participation in a consciously national effort to bring about revolutionary change. This shift is more than just the by-product of localized, community-based efforts at piece-meal change.

Political entrepreneurs must organize in a context that is largely defined by the nature of the nation's political economy and position in an international division of labor. This is the final and vitally important component of our analysis of the Philippine situation. It is in this area that theories of peasant revolution have proved to be most inadequate. We may focus on the emergence and growth of peasant organizations, but we cannot ignore the role of the state. As Theda Skocpol has argued:

> There has been too much of a tendency in the literature to suppose that the adherence of peasants to organized revolutionary movements must be explained by the economic interests and social circumstances of the peasants themselves. . . . Too close a focus on peasants themselves, even on peasants within local agrarian class and community structures, cannot allow us to understand peasant-based revolutions.
>
> A holistic frame of reference is indispensable, one that includes states, class structures, and transnational economic and military relations.[44]

The International Market and the Philippine State

In this section, I will illustrate the importance of incorporating the international market and the nation-state in analyses of peasant revolutions. Three examples from the Philippines will be used to make this point. (It must be reemphasized here that Scott's work focuses on explaining peasant *rebellion*; the Philippine case study reinforces his point that an explanation of revolutions requires an analysis which includes classes beyond the peasantry and which situates the nation in a larger international context.)

The first example is drawn from the banana and pineapple industries. Del Monte, Dole, and United Fruit, three multinational producers of tropical fruits, all have extensive plantations or networks of contract growers on the island of Mindanao. As Paige has predicted, we would normally expect the workers on these plantations to be union members, with all that that entails. Although workers have tried to advance their

[44] Skocpol, "What Makes Peasants Revolutionary?" *Comparative Politics* 14 (April 1982), 351-75, at 364 and 373.

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interests as rural proletarians, however, that has hardly been the complete story of their political participation.

In a labor-surplus nation, Philippine governments since at least the early 1960s have sought employment-generating foreign investment. As a result, these governments have been unenthusiastic in defending the interests of labor unions. And the foreign corporations and contract growers have sought to block, at the local and regional level, whatever efforts the national government may have been willing to undertake on behalf of the workers.

The plantations had unions; their success differed from one plantation to the next, but they were almost always company unions. The workers had tried mightily, but had failed to establish worker-controlled unions. Repression was extreme and effective. Some workers, rather than continue to fight for unions in a situation where the state's power was on the side of the owners of land and capital, were giving their support to the revolutionary effort. In short, they had given up hope of ever achieving reformist solutions to their problems. The interests of foreign investors, the state, and the local elite combined to ensure that the only organization that gave the workers some hope of improving their situation was one that pursued revolutionary goals. The political entrepreneur, in this case the NDF, found it relatively easy to convince the workers of the efficacy of the NDF organizations. Although armed struggle was illegal and risky for workers to support, it provided the hope they could not find through unions and the government. Under the Aquino government, issues are less settled; but it remains clear that the majority of the local plantation owners are opposed (often violently) to the formation of worker-controlled unions.

For their part, the workers are not isolated, individual rural proletarians. They are members of families, many of which lost land when the owners of plantations shifted to export crops or unscrupulously expanded their landholdings. Thus, even though the workers themselves might not benefit in the short term, there is some prospect that, as a family unit, they might benefit from lower rents on other plots of land, from access to land that was subject to revolutionary land reform, or from a shift toward a more equal balance of power—a balance from which more militant unions might eventually emerge. In this sense, the workers' situation made it easy for them to accept an approach that called not for reformist unions and piecemeal reforms, but for a revolution that would overthrow the combined political and economic power of the local landowners. The NDF could therefore build underground organizations that funneled small but steady contributions of food,

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money, and clothing to the revolutionary army. Here we see rational decision making, but the investment options have been defined by the state's power. This observation may be valid across broader portions of Southeast Asia, and perhaps elsewhere. For example, in his description of the situation in Vietnam in the early 1950s, George Kahin points out:

> For Vietnamese patriots, especially for the vast majority who lacked independent means, the effective range of political alternatives remained as narrow as before—the Vietminh or the French. And this polarization grew more pronounced as some French officials labeled all those who resisted them or opposed Bao Dai "communist." For increasing numbers of Vietnamese, that word came to connote something good—a sort of badge of honor, representing nationalism and opposition to French rule.[45]

There are therefore two weaknesses in the rational choice model. First, the model does an inadequate job of explaining the choices available to peasants. Second, as in the examples above, the contributions that workers make to the NDF (or that the Vietnamese patriots gave to the Vietminh, or the Javanese to the independence struggle in Indonesia)[46] are not rewarded in the short term by the selective incentives that theorists such as Popkin describe as essential. The workers do not act as we would expect rational, utility-maximizing individuals to act. The political entrepreneurs, in this case the NDF organizers, have convinced them to participate in a protracted struggle that has an uncertain prospect of success. What makes such participation rational is not merely what the local political entrepreneur offers. More important (and generally ignored by rational choice theory) is the lack of alternatives.

Similarly, in the Philippine coconut industry the conjuncture of international markets and the configuration of state policies constituted a source of strength for the NDF's organizational efforts. During the late 1970s, Ferdinand Marcos and his political associates used presidential decree-making power under martial law to keep domestic prices low and to capture the surplus generated when international commodity prices climbed. The manager of a state-owned coconut processing plant confided that the local military commander had ordered him to join the military in meeting with peasant groups to explain why international commodity prices for coconut products were three times as high as the local price paid to the farmers. He admitted there was no answer.[47] The coconut farmers producing in upland, mixed-cropping regions were

[45] Kahin, *Intervention: How America Became Involved in Vietnam* (Garden City, NY: Anchor Books, 1987), 28.

[46] Ann Laura Stoler, "Working the Revolution: Plantation Laborers and the People's Militia in North Sumatra," *Journal of Asian Studies* 47 (May 1988), 227-47.

[47] Interview conducted in the province of Misamis Occidental, 1980.

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probably forced to sell to the landowners or to middlemen who controlled credit and market access. In either case, the producers suffered at the hands of those who were politically and economically powerful.

The military knew that the NDF was using the issue of coconut prices and monopoly control of the industry as a powerful organizing tool; the NDF had been able to transform what would normally have been conflict between tenants and landlords over rents into an issue of national and revolutionary importance. Local millers and landlords, willingly or not, were partners in a scheme that systematically shortchanged the tenants and workers in the coconut industry. Public, legal protest against the monopoly was met by police and military violence. Landlords and millers could have led a multiclass coalition against the monopoly, but these elites chose not to challenge state power; to do so would have held almost certain risk of retribution. A broad-based opposition might have mitigated that risk, but such a strategy might also have further politicized inequalities in the countryside. The organizing field was thus left to the NDF. For the peasants, the choices (their investment decisions) had been reduced to quiescence or support for a revolutionary movement. Thus, while the national monopoly generated tremendous profits for Marcos and his cronies, it also generated converts to the revolutionary cause. It was not a coincidence that in the early 1980s the strongest NDF areas were in Eastern and Northern Mindanao, Samar, Bikol, and other parts of Luzon: all are major coconut-producing regions with high levels of tenancy and growing numbers of landless families. Within these regions, the areas that were most remote from central political and military control emerged as NDF pockets of organizational strength. Local exchanges and authority structures were being built, but the nature of the state gave the NDF the issues necessary to transform local organizations into units of a larger, national revolutionary movement.

The final example pertains to the use of state violence. Countless instances could be drawn from the Marcos era, but a more contemporary incident demonstrates that the prevalence of state violence has increased under President Aquino. The military is now more aggressively engaging in patrols, and there are now vigilantes in virtually every province and city of the nation. Thus, higher levels of military action are coupled with a state unable or unwilling to control violence at the local level.

Demonstrations and marches by groups that are legal, but represent the lower classes, have been systematically dispersed. Often, these dispersals have been exceptionally violent. For example, in January 1987, close to ten thousand peasants, landless laborers, and their supporters marched on the presidential palace demanding a comprehensive land-reform pro-

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gram geared to the ability of the farmers to make payments for the land they would receive. By this time, the Aquino government had been in office for ten months, and despite a campaign promise to implement such a nationwide program swiftly, no progress had been made. The farmers' organizations sought to increase public pressure on the government and therefore decided to march directly to the office of the president to take up their demands with the person who had the authority to get a comprehensive program started.

Within the first two or three minutes after the farmers reached the barricades that blocked their path to the presidential palace, the police (and the marines who were backing them up) opened fire on the unarmed marchers. There was no warning, no use of tear gas, no use of water cannons, just lethal fire from handguns and M-16 rifles. Within a minute, thirteen marchers were killed, and over a hundred others were wounded. As they fled in disorganized fright, the firing continued into their backs.

Generally, confrontations between organized protesters and the government's police forces occur in the urban areas. In the countryside, the people most often see the government in the form of military detachments that periodically pass through the villages. If the villagers are unlucky, these detachments may set up a temporary outpost in the area. Reports on the behavior of local military detachments are strikingly uniform: enlisted men and low-ranking officers are ill-disciplined and abusive. They regularly steal from the villagers—chickens, cooking utensils, and any cash they may have in their homes. Abusive language and manhandling of the people are rampant. The military normally assume that the villagers are in sympathy with the New People's Army; as such, they are the enemy. And, since the military are trained to think of the enemy as less than human, they consider it acceptable to violate the human rights of these people. In the words of Kumander Dante, "it can be said that fascist repression was the principal recruiter of the NPA."[48]

This may well be indicative of the way many new recruits to the NPA make their final decision. They reach a point at which, they say, there is no hope for change through peaceful organized participation in the political system—the Marcos government certainly would not respond to their interests or demands, and the Aquino government, from their point of view, is no more open than its predecessor. When they do join legal organizations and seek to present their interests peacefully, they are either ignored or violently dispersed. And when changes cannot be made

[48] Dante (fn. 40), 14.

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peacefully, the NDF is there with another set of organizations ready to work illegally for similar goals, but explicitly through the use of violence—armed revolution. Once they are politicized, and their hopes for change are dashed, many become willing supporters of the revolution.

Although the mass base for the NDF is found primarily on the periphery, recruits to the movement come from a variety of classes and venues. This includes peasants, workers, students, and members of religious organizations. They join above-ground, legal organizations promoting social change, but are confronted by violence and intransigence.

This was the sense in which Kumander Dante pronounced fascist repression to be the principal recruiter for the NPA. Exchange relationships as predicted by the rational choice theorists explain the development of vibrant structures in support of revolutionary change. But it takes more than that to explain the decision of a worker or a peasant to take up a rifle and risk his or her life. State violence helps to explain this choice.

The military, in addition to being poorly disciplined and poorly trained, have the problem of not knowing who the real enemy is. They face a peasant army in peasant villages. In a true Filipino simile, Colonel Emiliano Templo, Commander of the National Capital Command, has said that "the Communists are like the water lilies on the Pasig River of Manila; if the ship (the military) comes along, the water lilies withdraw or are pushed aside, but once the ship passes then the lilies return to their original position."[49]

Unable to differentiate between members of the NPA and members of the mass base, unable to differentiate between members of the mass base and uninvolved peasants, the military often apply violence in a random and counterproductive fashion. But the military, police, and vigilante groups have definitely targeted public figures such as leaders of labor unions and peasant groups; recently, there has been an alarming pattern of assassinations of human rights lawyers, which is indicative of a decline in the government's ability to defend the legal and human rights of its citizens.[50]

On the occasion of its third post-Marcos mission in July 1987, Amnesty

[49] Public talk by Colonel Templo, Faculty Center, University of the Philippines, Diliman, March 9, 1987.

[50] This statement may appear to be an unsubstantiated, antimilitary allegation; yet credible military and police connections have been established by witnesses or by the National Bureau of Investigation in recent cases, such as the assassination of labor leader and chairman of the *Partido ng Bayan*, Rolando Olalia; the two ambushes of the president of the Polytechnic University of the Philippines, Nemesio Prudente; and the assassination of the human rights lawyer from Cebu City, Alfonso Surigao.

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International reported that "there had been a sharp escalation in political violence, and the government appeared increasingly unwilling or unable to persuade its security forces to respect the safeguards it had promoted so vigorously a year earlier."[51]

Many of the people who live in villages that have been terrorized by the military still support President Aquino. They voted for her and they voted for her candidates. Increasingly frustrated, however, they cannot understand why she does not discipline her soldiers. The people of the countryside feel they have voted for her candidates and done everything she has asked of them, but that she either does not know the problems of the "little people" or is powerless to control the situation in the countryside. These people admit that there are NPA in their province, but from their point of view, the NPA is not causing trouble; in fact, it is implementing the campaign pledges the president has made; the *gulo*, the trouble in their village, has been caused by the military.

Violence and repression have been used before to explain peasant uprisings. In the case of the Philippines, violence by civilian guards and the constabulary apparently motivated many of the men and women who joined the Huk rebellion in Central Luzon during the late 1940s and early 1950s.[52] The NDF, however, has more skillfully taken advantage of state repression and violence to organize a mass base. It has been able to link violence at the local level to the character of the Marcos and Aquino governments and to their connection with the United States.

The NDF's educational campaigns highlight the linkages between American strategic interests, the existence of U.S. military bases in the Philippines, and continued U.S. assistance to the Philippine military. In many villages, the NDF has made concrete gains by harnessing the issue of nationalism. For the peasants in these villages, the Philippines is still in some ways a colonized nation; to overcome the local problems of high rents and land grabbing, the peasants must fight the local landlords who are supported and defended by the government. Fighting the government has thus brought soldiers to their region. Challenging the government also means that the peasants are confronting the U.S.-Philippine alliance and the network of U.S. military facilities in the Philippines as well. These peasants have learned that the Philippines is an integral unit in a larger geopolitical framework. The NDF has taught them that, to solve their local problems, they must also struggle for national independence. Thus, even though the Philippines is formally sovereign, the

[51] Amnesty International, *Philippines: Unlawful Killings by Military and Paramilitary Forces* (New York: Amnesty International USA, 1988), 3.

[52] Kerkvliet (fn. 4).

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NDF has successfully begun to utilize the issue of nationalism, just as the Vietnamese and Chinese did in their struggles for revolutionary change.

The point is that there are other than purely utility-maximizing ways of mobilizing revolutionary fervor. Rational choice theory pays scant regard to nationalism. Yet other scholars, with less rigid assumptions about peasant behavior, have pointed out its importance. Huynh Kim Khanh, discussing a 1939 decision of the Indochinese Communist Party to appeal to nationalism and national liberation (instead of its earlier emphasis on making a bourgeois-democratic revolution) argues that "it is impossible to exaggerate the practical importance of this new political line for the Communist seizure and retention of power in Vietnam."[53] In short, although people support revolutions in the hope of personal and familial gain, these motivations are not the only ones.

IV. Conclusion

The major studies on peasant revolutions in Southeast Asia—the rational choice model of Popkin, the moral economy model of Scott, and the class structure model of Paige—all fall short of providing complete explanations. In part this is because they pay insufficient attention to placing the revolutionary struggle in larger national and international contexts. Greater effort could be devoted to showing how a nation's colonial history shapes "comparative advantage" and class structure. In the case of the Philippines, the result has been to create a national elite that is conservative and land-based—and therefore unwilling or unable to implement reforms that would ameliorate inequalities in the countryside. As we have seen, the repressive machinery of the state has been used to defend the interests of transnational agribusiness firms and their local contract growers, the political monopolies controlling the coconut and sugar industries, and the general interests of landowners.

The social science models of peasant revolution discussed here do not sufficiently consider the larger contexts when they explore the options available to disgruntled peasants. Appeals to cultural norms that lessen social conflict, or the option of membership in unions that can bargain over the distribution of the corporation's profits, are not always available. More generally, the choices that are available, whether rational or moral, are determined by and through interaction with outside actors and forces. Good explanations of peasant revolution must take into account

[53] Huynh Kim Khanh, *Vietnamese Communism 1925-1945* (Ithaca, NY, and London: Cornell University Press, 1982), 263.

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what options are outlawed as well as what choices the peasants are allowed to make. Finally, the extant models do not adequately incorporate the power of nationalism. By focusing to a large extent on local issues, the theories leave out what has no doubt been one of the most powerful tools for the organization of successful peasant revolution.

In our attempt to understand peasant revolution in the Philippines, we have been drawn further and further away from the peasants themselves. This should not automatically be regarded as a case of mistaken emphasis; it is precisely the national political economy that explains the uniqueness of the Philippine case. The contemporary international economy and its division of labor largely shape what the Philippines will be able to export. The long history of free trade relations with the United States, and the postcolonial agreements that extended preferential access to the U.S. market for Philippine agricultural exports, strengthened the political hand of the agricultural exporters. Thus, the colonial legacy and the contemporary international division of labor combine to give the Philippines a "comparative advantage" in agricultural exports.

President Ferdinand Marcos, using his martial-law powers, saw an opportunity to capture the surplus from agricultural exports and at the same time weaken his political opponents in the agricultural export sectors of the economy. He formed monopolies in the trade, processing, and export of crops such as coconuts and sugar and, by capturing the profits, made it impossible for the landlords, millers, and traders to compromise over wages and rents with their workers and tenants. In the plantation sectors that produce bananas and pineapples, the multinational corporations bargained so ruthlessly with their local Filipino contract growers that many of these growers ended up going bankrupt. This meant that even in those parts of the economy in which Paige would predict labor union reformism (because he expects the bargaining to be over wages and working conditions), there was no surplus over which to bargain. The international market, the organizational and managerial logic of the multinational investors, and strategic relations with the United States have all played an important, if not paramount, role in determining the course of revolutionary struggles within the Philippines.

Within the nation, the willingness of the central government to foster or to acquiesce in land grabbing, its encouragement of agricultural exports, and its readiness to utilize naked coercion against the relatively powerless—the workers and peasants—all have to be incorporated in any adequate model of peasant revolutions. Classes in the Philippines (as elsewhere) may be a function of the ownership of the means of production and the source of one's income, but the pattern of class conflict is

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determined by far more than just class structure. Classes are important, but the government's failure to ensure the rule of law (even if we grant that it is willing, but unable, to enforce it) seems to indicate that class conflict cannot be resolved through peaceful means. Negotiations over land rents, wage rates, the operation of a market for land, and perhaps even the redistribution of land through a program of agrarian reform—all these normally peaceful forms of political and economic compromise—have been foreclosed. Marcos depended for his rule on a foundation of local political leaders who provided support and loyalty. In exchange, Marcos seldom challenged their local actions. The corruption, theft, and repressiveness of local leaders contributed mightily to the creation of an environment that fostered revolution, even though their actions paled in comparison with the monumental crimes of Marcos. Today it is unclear how far Aquino's personal example has been taken to heart by local politicians. Many of the local elite under Marcos have managed the transition to a new regime without any diminution in their local power.

When much of a nation's political and economic elite is based on a foundation of export agriculture, the redistribution of land, even temporarily, is a threat to class interests; this threat requires that the coercive mechanisms of the state be called out in their defense. In the Philippines, workers and peasants have tried to advance peaceful forms of redistribution, but have been met with repression. The quick recourse to repression is a reflection of the nature of the nation's political economy. President Aquino cannot personally be compared to the autocrat Marcos, but she exists within a similar political and economic context that shapes her options. Among her closest political advisers during her campaign and first two years as president were Joker Arroyo and Jaime Ongpin, both of whom subsequently opposed progressive land-reform proposals. Her brother, an elected member of the House of Representatives, was a leader in the congressional fight against the enactment of a more extensive and more feasible land-reform law than the one ultimately passed. The current law requires compensation at market value for land designated for redistribution. It is vastly more expensive than the government can afford to implement.

A large share of the nation's small middle class—often estimated at roughly 10 percent of the total population and including teachers, middle-ranking bureaucrats, and military officers—either owns land or aspires to landownership. Compromise with the vast majority, the rural poor, therefore becomes difficult when they are demanding land reform, rent reductions, and increases in wages for rural farm work.

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The cult of landownership has made land grabbing by the military, the owners of forest concessions, and the rural political elite acceptable; indeed, it prospers in the environment of lawlessness outside the cities that characterized the Marcos regime and continues under Aquino.

This means that any challenge to the status quo over virtually any issue—be it rent, land reform, wages, an end to land grabbing, the prevention of military abuses, the creation of new political parties pushing for dramatic change, the defense of human rights—is quickly elevated to the level of revolution. The military and police believe that people who participate in such challenges must be either supporters of the NPA or communists, or both. Consequently, such people become targets for repression or assassination.

Thus, the landless laborer or tenant who seeks piecemeal or peaceful reforms is almost immediately brought face-to-face with the repressive machinery of the state. Often, the average peasant or rural worker faces the choice of accepting his or her fate in an unequal and unjust situation or offering support to an armed revolutionary movement.

This is a momentous decision; it is not made easily. Many went through a long process of soul-searching and careful evaluation of their situation. They questioned whether they were doing the right thing when they reluctantly decided that their only recourse was to head for the mountains. They felt a deep sense of responsibility to their families, but believed that they had a responsibility to "the people" as well. These were not investors who made the kind of rational decision about costs and benefits that Popkin describes; these were people who, as is often said in the Philippines, made the decision to pay whatever price was necessary—even the ultimate sacrifice—to bring about changes in the political economy. These were people who thought in terms of a community. Thus, I would argue that Filipino peasants are rational and moral; it is clear that they calculate and invest and seek to maximize their own utility. But I would also agree with Charles Keyes that, "although peasants do seek through rational calculation to maximize the well being of themselves and their families, they are constrained in so doing by the particular political-economic conditions within which they live and also by the particular world of meaning in which their actions make sense."[54] The "world of meaning" for the average Filipino has not been analyzed here, but the commitment to family and community is undeniably strong. The NDF has sought to build on this world of meaning in order to foster a commitment to revolutionary structures and to a

[54] Keyes, "Economic Action and Buddhist Morality in a Thai Village," *Journal of Asian Studies* 42 (August 1983), 865.

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sense of a larger, national community. In part, they accomplished this through their own contribution of labor and through the sacrifice of thousands of lives of cadres working for the poor. Here we see the modern equivalent of what Scott describes at the level of the village as the "more explosive" kinship-based communal traditions of a community marked by "few internal class divisions." The NDF is trying to create a national community linked not by kinship, but by something analogous, a commitment to a vision of a better future for all those who are exploited. This is crucial for the study of the Philippine case, because it suggests that the success the NDF has achieved in shaping a national community based on shared moral commitments is contingent on the repressive and class-based nature of the state. The political economy of the Philippine state is, in turn, a product of its colonial and neocolonial history.

The foregoing is certainly not a full explication of the emergence and course of the revolution in the Philippines. One of the lessons we can learn from this case study, however, is that if we are to understand why people are joining the revolutionary struggle we must look to the international and national political economy. Indeed, the village and the local class structure are important, the decisions of individual peasants must be taken seriously and understood in the language and values of the peasants themselves, and the organizational tactics and strategy of the NDF have been innovative and effective. But in the final analysis, all of these factors are shaped within larger contexts. Theories of peasant revolution must pay greater attention to the national government, the state, and the international context of the revolutionary struggle. A focus on village and class structure is part of any complete explanation. In its own way, rational choice is also helpful. But any one of these three approaches alone is insufficient. They must all be made part of a larger, more contextualized explanation.

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Review Article

POLITICAL MOVEMENTS AND STATE AUTHORITY IN LIBERAL DEMOCRACIES

By THOMAS R. ROCHON

David Apter and Nagayo Sawa, *Against the State: Politics and Social Protest in Japan*. Cambridge, MA: Harvard University Press, 1984, 271 pp.

J. Craig Jenkins, *The Politics of Insurgency: The Farm Workers Movement in the 1960s*. New York: Columbia University Press, 1985, 261 pp.

Mary Fainsod Katzenstein and Carol McClurg Mueller, eds., *The Women's Movements of the United States and Western Europe*. Philadelphia: Temple University Press, 1987, 321 pp.

Bert Klandermans, Hanspeter Kriesi, and Sidney Tarrow, eds., *From Structure to Action: Comparing Social Movement Research Across Cultures*, International Social Movement Research, Vol. 1. Greenwich, CT.: JAI Press, 1988, 368 pp.

Alain Touraine, François Dubet, Michel Wieviorka, and Jan Strzelecki, *Solidarity: Poland 1980-1981*. Cambridge and Paris: Cambridge University Press and Editions de la Maison des Sciences de l'Homme, 1983, 203 pp.

POLITICAL movements have assumed an increasingly prominent place in the theoretical and empirical study of the advanced industrial democracies. The renaissance of political conflict after a period in which ideologies appeared to be on the wane has coincided with an expansion of the ways in which groups of people pursue their political interests. Ironically, it was only after the turbulent 1960s had come to an end that it was possible to see that patterns of pursuing political interest have been changed permanently. The tactics of mass mobilization and public demonstration are no longer limited to disadvantaged racial, linguistic, ideological, generational, and sexual groups, but have now become part of the normal mode of political expression. In the 1970s and 1980s, demonstrations by clerics, businessmen, and an assortment of middle-class organizations went from the "man bites dog" category of newsworthiness to an accepted part of political life. As Max Kaase and Alan Marsh put it, "in advanced industrial societies direct political action tech-

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niques do not in fact bear the stigma of deviancy. Nor are they seen as antisystem-directed orientations."[1]

The most important issue raised by these developments is the question of what the growth of movement activity means for the authority of the state. At first blush, the answer to this question is obvious: direct political action undertaken by large numbers of people undermines state authority. Particularly in authoritarian regimes, such as the Soviet Union, China, and Eastern Europe, popular movements expose the artificial and tepid quality of public support for the government. But even in the more elastic, cooptive liberal democracies, the emergence of political movements is said to have undermined such traditional forms of elite-mass linkage as political parties, interest groups, and the ability of constituted leaders to mobilize political support for their own policy agendas.[2]

Among social scientists interested in political movements, the claim that movements undermine state authority is not as obvious as it appears to other people. This is partly because the theoretical concerns of movement research direct attention away from the movements' impact on government and toward such internal issues as who gets mobilized into movements, how movement organizations work, what tactics they employ and how tactics develop over time, whether movement participation radicalizes people or draws them into conventional politics, and the like. But even movement studies that are primarily directed to other theoretical issues can also be employed to illuminate the relationship between movements and states. I propose to use that strategy here. I will look first at the theoretical conceptions that guide contemporary movement studies to show how conclusions regarding the relationship between movements and states are built into the assumptions of the theories themselves. Once those theoretical assumptions are understood and discounted, we can use these studies to examine the role of movements in liberal democracies. For the bottom line in the study of political movements is this: Are they compatible with representative, democratic government, in which most citizen activity is not intended to shape policies directly but rather to select and exert loose control over those who will make policy?

[1] Max Kaase and Alan Marsh, "Political Action Repertory," in Samuel Barnes and Max Kaase, eds., *Political Action* (Beverly Hills, CA: Sage Press, 1979), 157.

[2] See, among others, Michel Crozier, Samuel Huntington, and Joji Watanuki, *The Crisis of Democracy* (New York: New York University Press, 1975); Suzanne Berger, "Politics and Antipolitics in Western Europe in the Seventies," *Daedalus* 108 (Winter 1979), 27-50; Jürgen Habermas, *Legitimation Crisis* (Boston: Beacon Press, 1975); and Claus Offe, "Ungovernability: The Renaissance of Conservative Theories of Crisis," chap. 2 in his *Contradictions of the Welfare State* (London: Hutchinson, 1984).

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Competing Theoretical Approaches

In principle, the recent flowering of studies of political movements in a variety of countries offers an excellent opportunity to examine in detail the impact of such movements' activity on political authority. In practice, it is not quite that simple. Movement studies have been undertaken on wildly diverse theoretical issues, and within the framework of a number of mutually competing (not to mention hostile) theories. At one time, the dominant approach to studying movements was from the "collective behavior" perspective, in which movements were viewed as a reaction to deprivation. Despite differences of emphasis and increasingly sophisticated conceptualization, analysts in the collective behavior tradition from LeBon to the early Gurr tended to emphasize the importance of spontaneous reactions to immediate privations.[3] The origins of political movements were believed to have a great deal in common with the social and psychological processes associated with fashions, panics, riots, and other instances of crowd behavior.

Some aspects of the political movements of the 1960s and later were jarringly discordant with the claims of the collective behavior approach. Their extensive organization, growing tactical sophistication, reliance on privileged portions of the population, and use of mainstream channels of communication and fund-raising all argued against the view of movements as spontaneous uprisings against desperate circumstances.

The "resource mobilization" approach to the study of movements was developed as a way of accounting for precisely these phenomena. As its name implies, this theory emphasizes the importance of mobilizing such individual resources as commitment, money, and leisure, and such institutional resources as access to organizations committed to change.[4] These individual and institutional resources combine with political opportunities (created by elite competition, electoral instability, and the availability of political allies) to generate mass movements. The resource mobilization approach thus deemphasizes deprivation, political grievances, and

[3] Gustave LeBon, *The Crowd* (London: E. Benn Ltd., 1930); Ted Robert Gurr, *Why Men Rebel* (Princeton, NJ: Princeton University Press, 1970). For an overview of this literature, see Joan Gurney and Kathleen Tierney, "Relative Deprivation and Social Movements: A Critical Look at Twenty Years of Theory and Research," *Sociological Quarterly* 23 (Winter 1982), 33-47.

[4] Prominent works in this tradition include John McCarthy and Mayer Zald, "Resource Mobilization and Social Movements: A Partial Theory," *American Journal of Sociology* 82 (May 1977), 1212-41; Michael Lipsky, "Protest as a Political Resource," *American Political Science Review* 62 (December 1968), 1144-58; Doug McAdam, *Political Process and the Development of Black Insurgency, 1930-1970* (Chicago, IL: University of Chicago Press, 1982); and Sidney Tarrow, *Struggle, Politics, and Reform* (Ithaca, NY: Cornell University Press, 1989).

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spontaneous protest. Instead it views political movements as the product of deliberate strategies of mobilization, backed by organizational and political resources.

Like any productive social science theory, the resource mobilization perspective directs our attention to particular aspects of political movements. After the fifteen years of research inspired by this approach, we now know a great deal about patterns of mobilization and about how movement campaigns get off the ground. The volume edited by Bert Klandermans, Hanspeter Kriesi, and Sidney Tarrow, the first in an annual series planned by JAI Press, is an excellent example of this research agenda. Although the title of their volume suggests a wide-ranging collection of movement studies, the research reported here is focused almost exclusively on issues of recruitment, development of group consciousness, internal organization, and links between movement organizations. The ways in which movements influence or fail to influence politics are not considered in these studies of the Dutch peace movement, Italian ecology, religious and terrorist movements, nuclear energy and the environment in West Germany and the United States, and the Mississippi Freedom Summer.[5] This research has been valuable in showing us how mobilization into political movements raises the salience of a particular problem and gives a political meaning to problems previously considered outside the boundary of the political. Inducing these changes of perspective is one of the most important impacts a successful political movement can have.

No unified jargon has yet emerged to summarize these perspective shifts, and various authors in the Katzenstein and Mueller, and the Klandermans, Kriesi, and Tarrow collections refer to political consciousness, political discourse, consensus mobilization, construction of a collective identity, construction of meaning, or, simply, framing. Whatever we call the phenomenon, it is clear that an issue capable of mobilizing people to action is a created idea rather than a natural occurrence. William Gamson's review, in the Klandermans et al. collection, of the varying meanings that have been attached to nuclear power in the United States yields a marvelous example of this in the contrast between reactions to the partial meltdown of the Fermi breeder reactor near Detroit in 1966 and the similar occurrence at Three Mile Island in 1979. The former accident caused barely a ripple of public interest; the latter provoked a storm of

[5] Vol. 2 of the JAI series devotes the final two of its sixteen chapters to the effectiveness of movements in influencing policy. See Bert Klandermans, ed., *Organizing for Change: Social Movement Organizations in Europe and the United States* (Greenwich, CT: JAI Press, 1989).

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protest and was an important factor in bringing nuclear power plant construction in the United States to a standstill.

A second productive outgrowth of the resource mobilization perspective is that it has called our attention to the extent to which political movements rely upon supportive linkages with individuals, organizations, and institutions in the establishment. The central focus of J. Craig Jenkins's study of the United Farm Workers (UFW) is the genius Cesar Chavez displayed in gaining outside support for his union. Chavez summed up his strategy pithily when he said that he went "to unions for publicity and money; to the Church for respectability; and to students for bodies" (Jenkins, 167). The lesson of Jenkins's study and of other studies in the resource mobilization tradition is that oppositional political movements rely upon extensive contacts with portions of the political establishment. Paradoxically, the more marginal the clientele of the movement, the more abundant those contacts must be for the movement to sustain itself.

The resource mobilization school is the product of U.S. sociologists and political scientists who have looked at the development of highly organized and sophisticated forms of political protest in this country. Although this perspective has moved us beyond the previous focus on the spontaneity and irrationality of political protest, one problem with the resource mobilization theory is that it tends to blur the distinction between movements and such established political channels as parties and interest groups. Scholars using the resource mobilization perspective tend to view movements as an extension of conventional political activity.

To many social scientists, particularly in Western Europe, contemporary political movements represent a dramatic departure from politics as usual. Most contemporary movements draw their support from people who are relatively privileged, and perhaps as a result they are likely to focus on nonmaterial issues that class-based political parties are ill-prepared to cope with. These are among the key points made by scholars working within the "new social movements" framework, which has been the chief theoretical rival to the resource mobilization approach over the last decade.[6] Dieter Rucht's essay in the Klandermans, Kriesi,

[6] Karl-Werner Brand, Detlev Büsser, and Dieter Rucht, *Aufbruch in eine andere Gesellschaft: Neue soziale Bewegungen in der Bundesrepublik* [Breakthrough to another society: New social movements in the Federal Republic of Germany] (Frankfurt: Campus Verlag, 1983); Joachim Raschke, *Soziale Bewegungen: Ein historisch-systematischer Grundriss* [Social movements: A historical-theoretical framework] (Frankfurt: Campus Verlag, 1985); Karl-Werner Brand, *Neue soziale Bewegungen in Westeuropa und den USA* [New social movements in Western Europe and the United States] (Frankfurt: Campus Verlag, 1985); Claus Offe, "New

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and Tarrow volume refers to new social movements as "militant, countercultural, emancipatory, and radical-democratic." They are antimodern in the sense that they "do not perceive productivity, division of labor, and economy of time as guarantees of social progress" (p. 317).

The studies by Touraine and his colleagues, and by Apter and Sawa, each illustrate aspects of the new social movements approach, though they are also different from each other in many respects. Touraine's studies of political movements are oriented to his belief that movements are a mirror of the basic conflicts to be found in the social and political structure of society. Touraine and his team gather together activists in a particular movement and, through guided group discussions, try to sharpen their ideological analysis and to make them conscious of being a revolutionary vanguard. In his study of Polish Solidarity, Touraine's orientation led him to stress with union leaders that they could not take refuge behind the fiction that they were "merely" a trade union. Solidarity's effort to define itself as a trade union without political pretensions was held by Touraine's research team to be contradictory in a context in which the political authorities would not recognize independent trade union activities.

> A duel began between the researchers and the militants. . . . The researchers maintained that the economic crisis forced the union in two directions, towards sharing or taking responsibility for management, and towards an extension of its demands, and that the effect of this was to create an even wider gap between the two aspects of its activity. The group did not want to accept this (p. 120).

Apter and Sawa's study of the movement against the construction of an international airport at Sanrizuka, near Tokyo, draws more on methods of literary analysis than on new social movements theory, but it shares some traits with the latter school. Apter and Sawa view the words and deeds of the movement as symbolic opposition to capitalist modernization in Japan. They suggest that the government's preliminary land survey was a metaphoric rape and that the farmers' resistance to the survey stood for resistance to state capitalism. An attack on the airport's control tower was a metaphor for transcendence, or the arrival of the revolution (p. 108).

The resource mobilization perspective and the new social movements approach each emphasize different aspects of political movements. Scholars using the resource mobilization perspective focus on the orga-

Social Movements: Challenging the Boundaries of Institutional Politics," *Social Research* 52 (Winter 1985), 817-68; and the other articles in the same issue of *Social Research*.

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nization, tactics, and alliances of political movements, while the new social movements theory puts far greater stress on the social status of movement activists and the ideological justification of their demands. Although the two theories contradict each other in certain important respects, it is nonetheless clear that there are large areas of complementarity between them that beg for a theoretical synthesis. Developing that synthesis has been the focus of some of the most recent work in the area of political movements, including the opening and closing essays in the Klandermans, Kriesi, and Tarrow volume.[7]

A complete perspective on political movements will require more than a synthesis of the resource mobilization and new social movements theories, however, for neither approach pays adequate attention to the relationship between movements and states. To overlook this topic may be justifiable in the study of a social movement that has no overtly political aims, such as one of the new age religions, but a *political* movement must be analyzed at least in part in terms of its impact on politics. The two dominant theoretical perspectives share an overemphasis on the internal dynamics of movement politics and on their impact on people's beliefs. Moreover, each theoretical approach produces a limited view of the relationship between movements and states. Studies in the new social movements tradition produce a biased view of the movement-state relationship because they pay too much attention to what movement activists say. Studies in the resource mobilization tradition offer an equally biased account because they pay too much attention to what movement activists do. Neither words nor deeds, taken alone, are adequate to capture the relationship between movements and states. The structure of the relationship between movements and states is such that rhetoric and actions are never in alignment with each other, at least not in liberal democracies. We will now explore why that is so.

Ideology and Behavior in Movement Politics

Adherents of the new social movements approach, with their emphasis on the ideological beliefs of movement activists, invariably see a movement-state relationship that is full of conflict. Movement campaigns, no less than electoral campaigns, generate exaggerated claims of irreconcilable differences. Governments opposed to movement demands also ex-

[7] See also Sidney Tarrow, "National Politics and Collective Action: Recent Theory and Research in Western Europe and the United States," *Annual Review of Sociology* 14 (1988), 421-40; and Russell Dalton and Manfred Küchler, eds., *Challenging the Political Order* (New York: Oxford University Press, 1990).

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aggerate the extent to which the movement threatens to undermine the state, an exaggeration that is reinforced by the rhetoric of movement leaders.

It is easy for a movement scholar to get caught up in this inflated web of rhetoric, especially if the scholar does extensive fieldwork among movement activists. At the extreme, theoretical claims can be mistaken for the real world in which a movement operates. That error appears to be made by Apter and Sawa when they say, with respect to the writings of Sanrizuka student militants, that

> The action of writing is important; the words themselves are evidence, on the printed page, that the revolution exists. . . . Saying things about the struggle, the farmers, or the state makes the things said true, and the actions of those involved are affected by the truths said (pp. 127-28).

Saying things about the struggle may make them true for participants, and so analyses such as the one by Apter and Sawa are useful for exploring the ideology of dissent among movement activists. But such analyses tell us relatively little about the actual careers of these movements or their impact on politics. After claiming that the Sanrizuka movement "represented the polarization of Japan into two increasingly hostile parts, society and state" (p. 103), exposed "the sham of parliamentary government" (p. 198), publicized Japan's "imperialism and militarism" (p. 210), and "revealed the hidden costs and unfinished business of Japan as number one" (p. 240), Apter and Sawa conclude with the admission that "most Japanese today would be surprised to learn that the Sanrizuka struggle is still going on" (p. 246). Clearly, a full understanding of the movement requires more than an analysis of the dreams of its activists.

Similarly, the analysis of the ideas of activists in Solidarity by Touraine and his fellow authors fails to help us understand the changing character of Solidarity's relations with the Polish state. How can we account for the recognition of Solidarity in 1980, its suppression in December 1981, its formal banning in 1982, and its renewed legalization in 1989? Unless we expand our sights to encompass the balance of political resources available to Solidarity and the government, including the support for Solidarity in the West, the advent of *perestroika* in the Soviet Union, and Poland's own deepening economic crisis, the history of the union remains an enigma.

Behavioral interactions between movements and democratic states reveal an entirely different picture of the extent of conflict than does an examination of movement rhetoric. The rhetoric of political movements is generally oppositional, but their behavior tends to be a blend of con-

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frontation and cooperation, of negation and negotiation. The case of the UFW as portrayed by Jenkins is a typical example of the interplay between movement and state. Although Jenkins refers to the UFW in the title of his book as an "insurgency," he makes it clear that the UFW was able to generate support from political authorities by capitalizing on an unusually competitive party environment both nationally and in California. Governor Edmund Brown and presidential candidate Robert Kennedy each faced stiff electoral challenges in which the votes of California's farm workers were seen as crucial.

> The basic bargain was incorporative reforms that protected rights to organize in exchange for electoral loyalty. Democratic leaders supported the boycotts and the Agricultural Labor Relations Act in return for a growing Mexican-American vote in Democratic columns (p. 220).

One of the lessons of Jenkins's study is that there is no single, united "State" that movements must face. As the UFW's grape boycott began to take hold, Governor Reagan urged Californians to eat more grapes and the Department of Defense increased its purchases of grapes fivefold. Yet the California Supreme Court and the state Labor Board (which was charged with overseeing certification elections and monitoring picketing activities) each consistently supported UFW organizing efforts. At the national level, the Office of Economic Opportunity and the National Health Services Administration offered Chavez financial grants and other services.

Studies in the Katzenstein and Mueller volume present other examples of substantial cooperation between women's movements and the state. Jane Jenson's account of the 1974 abortion reform in France is a story of institutional leadership from the minister of health, Simone Veil, abetted by a women's movement that publicized widespread violations of the existing abortion law. Mary Ruggie finds that the close ties between organized labor and the state in Sweden has given women an opportunity to improve their labor-market position. Judith Hellman describes how women's groups within Turin's unions used employer-funded training opportunities to offer courses in feminist thought. According to Karen Beckwith, a public campaign against sexual violence in Italy spurred several political parties to respond with their own (weaker) legislation. Jo Freeman and Anne and Douglas Costain find that women's movements in the United States have not accomplished a great deal by working through parties, but that successes have followed the lobbying of Congress and, before 1980 at least, of the executive branch. Freeman points also to the positive effect of the growing number of women

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in elective office, and Janet Flammang underscores this with her account of the comparable-worth pay policy won after a strike by municipal employees in San Jose, which had a majority of women on its city council and is the self-proclaimed "feminist capital of the United States."

Not all movements enjoy as much access to sympathetic governments as those described above, and when access is denied the degree of conflict between movements and states tends to escalate sharply. The Japanese farmers who were to be displaced by the airport at Sanrizuka literally dug themselves into the countryside to resist government encroachment. Aided by student militants, they built cement bunkers and equipped them with helmets, staves, camping equipment, and medical supplies. Activities in and around the fortresses were watched by the police from their own observation towers on the other side of the fence dividing the farmers' land from that already acquired for the airport.

When the authorities showed up to survey the land on which the airport would be built, watching turned into fighting. Farmers grabbed their implements (hoes, rakes, sickles, bamboo sticks) to beat the surveyors. They laid down barbed wire and hid bamboo spears in the bushes. Women shouted epithets at the police, using language that caused the police to fall back in confusion. One woman, over ninety years old, was arrested for pouring buckets of human excrement on the police.

The violence between protesters and police peaked with an attack on the (then unfinished) airport control tower by fourteen militants who entered the airport through the sewer system. Behind the cover of diversionary attacks that included driving a flatbed truck carrying steel drums of burning fuel through the main gate of the airport, the militants got inside the control tower, made it up to the sixteenth-floor control room, and battered the electronic equipment into oblivion while dumping documents out the windows.

Apter and Sawa tell a riveting story that pits movement against state in what seems to be an uncompromising opposition. Yet, by their own account, there were also a series of attempts from both movement and government sides to reach an accommodation. Movement leaders not only held rallies, but also petitioned local, prefectural, and national authorities, and enlisted the support of sympathetic members of parliament. Violent methods were adopted only when these channels failed, and even then by only a minority of the farmers. Indeed, most of the farmers quickly sold their land to the government, receiving for it approximately three times its market value. Within a month of the farmers' first meetings, the government's negotiations were so successful that 80 percent of the original support for the protest had eroded. Prefectural

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authorities circulated a questionnaire asking where people would like to relocate, and achieved a high response rate. By 1969 the airport authority had purchased 670 hectares of private land and needed only 82 more to complete the first stage of construction. Support for the airport increased even further when the government offered proprietorship in concessions within the airport to some of those who sold their land.

Although Japanese government is highly centralized, it appears that even the Japanese state is not monolithic.[8] Injuries to boys who attacked expropriating officials prompted protests from Socialist (JSP) members of parliament who were present, and some of the parliamentarians got into a fistfight with police (p. 100). When the movement began to sell tiny parcels of land in order to complicate the acquisition process, approximately 140 JSP parliamentarians purchased small plots.

The fact that some members of the political establishment supported the Sanrizuka movement does not mean that the conflict between movement and state was not real, but it does mean that the conflict was not absolute. The battles between demonstrators and police were part of a larger strategic interaction that also included negotiations between the adversaries. Rhetorical claims that the movement unconditionally opposed the state coexisted with hard-nosed bargaining about the terms of compensation for the farmers' land.

The gap between rhetorical conflicts and pragmatic behavior in relations between movements and states in liberal democracies is created by the need for both movement and governmental leaders to maintain broad coalitions of political support. The rhetoric provides reassurance to the faithful of ideological rectitude. The bargaining offers movement leaders the opportunity for concrete achievements and gives government leaders the chance to broaden their support base by incorporating protest.

Solidarity offers the starkly contrasting case of a movement operating in a context in which political leaders are not constrained by democratic accountability and so have few incentives to negotiate. Under the prevailing official doctrine of complete party dominance, Solidarity's attempt to become a free trade union, to establish freedom of the press, and to decentralize economic control all represented political challenges to the regime. That threat was greatly enhanced by Solidarity's enormous success in the first year of its operation. Within months of its

[8] The process described by Apter and Sawa is similar to the dynamic of crisis and compensation analyzed by Kent Calder in *Crisis and Compensation: Public Policy and Political Stability in Japan, 1949-1986* (Princeton, NJ: Princeton University Press, 1988). See also Richard Samuels, *The Politics of Regional Policy in Japan* (Princeton, NJ: Princeton University Press, 1983); and Steven Reed, *Japanese Prefectures and Policymaking* (Pittsburgh, PA: University of Pittsburgh Press, 1986).

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founding, Solidarity had enrolled more members than the Polish Communist Party. People appealed to Solidarity officials to intervene for them with the bureaucracy and to obtain goods when there were shortages. Touraine and his colleagues report that instances of theft and rape were sometimes brought to the union rather than to the police, and in one instance the militia refused to respond to a call to break up a fight at a hotel unless a Solidarity official went with them (p. 42).

This volume gives a striking portrayal of the evolution of Solidarity's position vis-à-vis the state as the union's leaders gained confidence from their early successes. The authors divide the history of Solidarity before martial law was imposed into three periods, beginning with the Gdansk strike, whose chief goals were pay raises and recognition of an independent union. This period ended when the regime accepted the Gdansk Accords. The second phase was that of self-management, in which Solidarity sought to take control of the factories from the Party bureaucracy in order "to eliminate the waste, corruption and arbitrariness which ... centralized economic management tends to maintain and even increase" (p. 95). In the third phase, Solidarity became even more overtly political, seeking freedom of information, access to TV broadcasting, open nominations for upcoming local elections, and creation of a second legislative chamber with direct representation for leading economic groups. Solidarity's Congress, held in September 1981, was the culmination of the third phase, and no doubt helped precipitate the imposition of martial law that December.

The history of Solidarity is thus a history of escalating demands. Touraine and his coauthors are able to show that all these demands were present from the beginning in the minds of the militants. The distinction between radicals and moderates within the union appears not to have been one of ultimate ends, but rather of where to start and how quickly to proceed. Was a free trade union the opening wedge that would eventually lead to political pluralism and economic decentralization? Or would structural political reforms have to be made before a free trade union could be anything more than an agreement on paper?

These are the dilemmas with which Solidarity activists wrestled during 1980 and 1981. The escalating rhetoric of conflict between union and government was not moderated by pragmatic bargains struck between the two because the regime had no incentive to offer such bargains. Governmental acceptance in 1989 of partially competitive elections, resulting in an overwhelming victory for Solidarity, has radically changed Solidarity's relationship to the state. While these elections hardly qualify Poland as a liberal democracy, they may be expected to offer the means by

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which the relationship between Solidarity and the state will become more like the blend of conflict and compromise that prevails in democratic societies.

Conclusions

The studies examined in this essay demonstrate that a large part of what social scientists see in a political movement depends on the methodology they use to study it. The new social movements approach views movements as expressions of emerging conflicts in society. New social movements theorists pay a great deal of attention to movement ideology, and as a result they see a fundamental conflict between movements and states. The resource mobilization approach views movements as an extension of the routine political activities of persuasion and mobilization. Resource mobilization theorists pay a great deal of attention to the techniques of mobilization and alliance formation employed by movement leaders, and as a result they see a bargaining relationship between movements and states.

Despite these fundamental differences of theoretical vision, case studies employing the two approaches show impressive commonalities in their portrayals of the relationship between movements and states. Every political movement employs a mix of confrontational and collaborative strategies with respect to the state. The precise balance between the two varies between movements and between political contexts. The more centralized the state, the more oppositional movements are driven toward conflictual tactics.[9] Solidarity found itself in a position of conflict with the state by reason of its very existence. Concessions made by the Polish state to the union in 1980 and 1981 and again in 1989 were tactical retreats in the face of political weakness.

The conflict between movement and state is less intense in democratic settings, but there is still variation between countries. In Japan, the Sanrizuka movement faced a relatively centralized state that responded to the movement with a mixture of coercion and negotiation, just as the movement approach to the state was a combination of challenge and petition. The United States stands at the opposite end of the democratic spectrum from Japan, and its diffused pattern of authority permits movements many possible points of entry. It is, then, not surprising that studies of American movements uncover a wide range of strategies for exert-

[9] A similar point is made by Herbert Kitschelt, "Political Opportunity Structures and Political Protest: Antinuclear Movements in Four Democracies," *British Journal of Political Science* 16 (January 1986), 57-85.

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ing influence on and within political institutions. The Sanrizuka tactic of digging underground bunkers to ward off government surveyors would be maladapted to American politics.

All political movements carry with them ideologies of uncompromising opposition to significant aspects of the current social and political system. Although the ideologies of movements typically dramatize the distance between a movement's ideals and the status quo, they are also a vehicle of a movement's influence. The ideology of a movement may be diffused into the social or political mainstream, albeit in diluted form. Elsewhere I have advanced the hypothesis that political movements achieve specific policy changes only after they are able to widen the range of political possibilities by advancing new ideas.[10] In the case of the West European peace movement, pressure on governments not to deploy cruise and Pershing II missiles probably increased the chances of a successful INF treaty. But the bigger impact of the movement is only now being felt in the spread of interest in alternative approaches to defense in Europe. The plans for "defensive defense" that are currently attracting a great deal of attention were first championed by peace movements, were later picked up by major parties of the Left in Western Europe, and are now playing a role in the disarmament negotiations between the Soviet Union and the United States.

The Sanrizuka anti-airport movement has also left its impact on Japanese culture, particularly with respect to familial relationships. Daughters-in-law are traditionally subservient and silent members of their husbands' households, but many young married women took prominent roles in the movement. They chained themselves to bulldozers and trees, traveled around Japan making speeches, and linked political and familial issues in public meetings (Apter and Sawa, 192-93). Similarly, Jenkins claims that migrant workers reached by the UFW developed an enhanced sense of their own political power. "Conditions that were previously perceived as immutable and fair are collectively redefined as mutable and unjust" (p. 6). The essays in the Katzenstein and Mueller volume stress the struggles of women's groups to have gender recognized as a distinctive political issue, overturning the domination of social class as a category of analysis within the European Left.

Cultural change is what movements are all about, but such change does not occur quickly and there is no evidence that movements actually produce it. It is likely that movements merely articulate emerging social

[10] Thomas R. Rochon, *Mobilizing for Peace* (Princeton, NJ: Princeton University Press, 1988).

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values and give them political content. The role of movements is that of midwife rather than mother.

What does all of this tell us about the compatibility of political movements with representative democracy? Apter and Sawa state the difficulties that movements pose for democratic governance with particular clarity:

> How can governments respond to citizen protest outside of normal channels? Is violence endemic in order to force governments to respond? To what extent should there be institutional mechanisms for converting protest into information and information into obligation? (p. 224)

The answer to their question is that movements do not exist solely outside of normal channels. Violence is not the means that movements use to persuade governments to do their bidding, though violence within consciously chosen limits may be used to demonstrate strength of conviction. Protest is routinely converted into information, and information into obligation (or, at least, influence) by the institutional alliances and activism of those affiliated with the movement. Although the extent of institutional penetration and influence by movements varies from case to case, the labor, peace, ecology, women's, religious, nuclear energy, civil rights, and anti-airport movements described in these studies each seek to work through governmental institutions even while they oppose them.

A true social movement is a current of demand for change that sweeps through the society. The movement produces spectacular demonstrations and angry speeches by activists, and these have been the cynosure of both popular and academic interest in them. But movements sweep equally forcefully, if less dramatically, through social and political institutions. It is through their effect on those institutions that movements are a force for change within democratic society.

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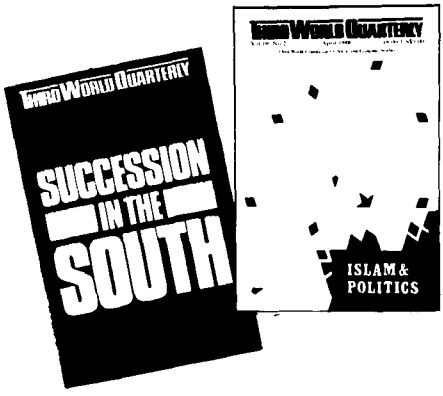

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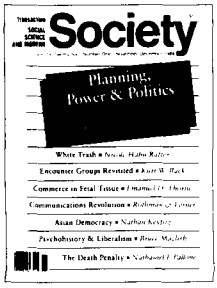

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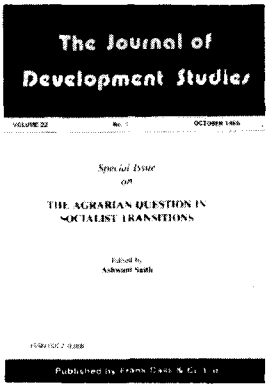

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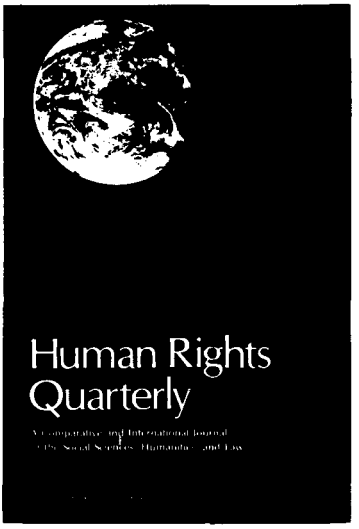

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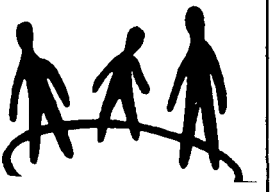

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